

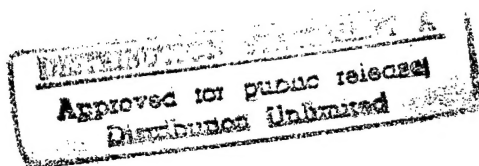
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# ***JPRS Report***



# **China**

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## CHINA

## CONTENTS

## POLITICAL

Speech on Ideological, Political Work by Tianjin Mayor (Li Ruihuan; SIXIANG ZHENGZHI GONGZUO YANJIU, No 4, 8 Apr 87) .....	1
Grassroots Judicial Organs Strengthened (Yu Xinnian; ZHONGGUO FAZHI BAO, 23 Feb 87) .....	5
Strengthen Local-Level People's Congresses (Ren Dalian; ZHONGGUO FAZHI BAO, 16 Mar 87) .....	7
Hu Sheng Article on Socialism, Capitalism Criticized (Li Yu; CHENG MING, No 114, Apr 87) .....	11

## ECONOMIC

## FINANCE, BANKING

Inflation Said Unavoidable in Country's Economic Development (Hu Yuanlong; JIAGE YUEKAN, No 2, 15 Feb 87) .....	22
More Reliance on Markets To Raise Funds for Businesses (Xu Yan; JINGJIXUE ZHOUBAO, 26 Apr 87) .....	27
Issuance of Treasury Bonds Reviewed (Wang Yong; CAIZHENG, No 4, 8 Apr 87) .....	30
Development and Role of Bill Discount Market (ZHONGGUO JINRONG, No 4, 4 Apr 87) .....	34

## INDUSTRY

General Industrial Survey To Produce Results in 1987 (TONGJI, 17 Mar 87) .....	40
---	----

Blueprint for Country's Iron, Steel Industry (Xiao Yan; LIAOWANG, 23 Mar 87) .....	43
---	----

## FOREIGN TRADE, INVESTMENT

Advantages of Direct Foreign Investment (Wang Yibing; GUOJI MAOYI, No 3, 27 Mar 87) .....	46
--	----

## ECONOMIC ZONES

Overview of Tianjin's Foreign Economic Relations, Trade (Gu Peichuan; CHING-CHI TAO-PAO, No 11, 23 Mar 87) .....	52
---	----

Briefs Economic Zones Favorable Climate	58
--	----

## TRANSPORTATION

Guidance Given on New Economization Campaign for Railroads (RENMIN TIEDAO, 12 Apr 87) .....	59
--	----

New Railroad Freight Regulations Take Effect (Ji Jie; RENMIN TIEDAO, 8 Apr 87).....	67
--	----

Update Provided on Railroad Safety (Kang Yuming; RENMIN TIEDAO, 12 Apr 87) .....	70
---	----

## PRC MEDIA ON FOREIGN ECONOMIES

Soviet and East European Experience With Reform (Wang Aizhu; SHEHUI KEXUE, No 5, 15 May 87) .....	72
--	----

Analysis of Poland's Foreign Debt (Luo Jingfen; JINGJI LILUN YU JINGJI GUANLI, 28 Mar 87) .	79
--	----

## AGRICULTURE

Impact of Spark Plan Reviewed (Li Shuzhong; LIAOWANG OVERSEAS EDITION, No 12, 23 Mar 87)	86
---	----

Yunnan Agriculture Development Strategy (Hu Yongyuan; YUNNAN RIBAO, 20 Mar 87) .....	91
---	----

Briefs Tobacco Prices Readjusted in Yunnan	94
---	----

## MILITARY, PUBLIC SECURITY

Separation of Defense Structure Administration, Command (Zhu Baogang; JIEFANGJUN BAO, 6 Mar 87) .....	95
Applying Military Technology to National Defense Economics (Ye Lu; JIEFANGJUN BAO, 13 Mar 87) .....	98
Improvements, Reforms in Reserve Divisions (Dong Ze; DONGHAI MINBING, No 3, 15 Mar 87) .....	103
Report Issued on Inspection of Finances (Shen Wen; JIEFANGJUN BAO, 18 Mar 87) .....	105
Airborne Training Brigade Realizes Savings of 32 Percent (Zhou Bin; JIEFANGJUN BAO, 14 Mar 87) .....	107
AAA Brigade Reforms Distribution of Clothing, Equipment (Yuan Guowen, Qin Jinfu; JIEFANGJUN BAO, 22 Mar 86) .....	108
Chengdu MR Abolishes 109 Excess, Temporary Organizations (Tan Zhenya; JIEFANGJUN BAO, 14 Mar 87) .....	110
Armored Forces Engineering College Described (Zhang Jinyu, Wang Fuli; JIEFANGJUN BAO, 19 Mar 87) .....	111
Report on Naval Electronic Engineering College (Li Xiangmin; JIANCHUAN ZHISHI, No 4, 8 Apr 87) .....	113
Stricter Selection Producing Better Talent at Colleges (JIEFANGJUN BAO, 20 Jan 87) .....	115
Briefs	
Need for Airborne Command Post Raised	117
PLA File Management System Certified	117

## REGIONAL

### EAST REGION

Jiangxi Forum on Rural Party Rectification (JIANGXI RIBAO, 26 Feb 87) .....	118
--	-----

### NORTHEAST REGION

Harbin Officials Disciplined for Mill Explosion (XINHUA, 28 Jun 87) .....	120
--	-----

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SPEECH ON IDEOLOGICAL, POLITICAL WORK BY TIANJIN MAYOR

Beijing SIXIANG ZHENGZHI GONGZUO YANJIU [STUDIES IN IDEOLOGICAL AND POLITICAL WORK] in Chinese No 4, 8 Apr 87 pp 7-8

[Excerpt of speech by Li Ruihuan [2621 3843 3883] , mayor of Tianjin Municipality, at the third annual meeting of the China Research Society on Ideological and Political Work for Staff and Workers: "Ideological and Political Work Is Extremely Important Work"; date and location not given]

[Text] The third annual meeting of the China Research Society on Ideological and Political Work for Staff and Workers is being held in Tianjin. With so many leading comrades and so many comrades with profound, abundant experience in ideological and political work attending the meeting, this is an extremely good opportunity for us to learn from various places throughout China. We should, within the scope of the entire municipality, study and popularize the results of this meeting and move Tianjin's ideological and political work forward a step.

Ideological and political work for staff and workers is extremely important. Under the new historical conditions, it is still the lifeblood of all work in enterprises, and is also one of our superiorities. Can't we put it this way?: All the successes we have achieved over these several years include the important factor of the constant improvement of ideological and political work, but there exist problems in many aspects that also have a direct relationship with the unsuitability of ideological and political work. At present, people are widely discussing economic work. Of course, economic questions should be studied from the aspect of economic work itself, but they also cannot be separated from politics and people. In the final analysis, an economic question is a question of productive forces, and the fundamental question in developing productive forces is the question of the morale of the producers, and is also the question of the awareness level and spiritual state of the staff and workers that we have often stressed. If we do not inculcate a progressive political spirit in the staff and workers, if we do not truly form a political situation in which the four modernizations are tackled vigorously and with one heart and one mind, then it will be hard to successfully implement better economic principles, economic policies, and economic ideas. I once put it this way: Currently, in economic work there are certain relationships that have not yet been smoothed out, and this problem needs to be solved well, but I always feel that we should, first of

all, make an effort to arrange the mass relationships, which are the premise and foundation. When Comrade Xiaoping inspected Tianjin, he said: "If the masses are happy, things will be done well and done well with ease." This sentence profoundly brings to light the important position and role of the masses' feelings in social life. Practice proves that if we want to put in order the masses' feelings, if we want to arouse, to the greatest extent, the enthusiasm, initiative, and creativity of the masses, it will not do to place sole reliance on economic work. The idea and practice of exclusively buying enthusiasm with money is even more mistaken. We should conscientiously reflect on this question. Over these several years, a lot of money has been spent. The standard of living has been quickly raised, and raised over a large range, something seldom seen since the founding of the PRC. Then why is it that some people put on such grand airs, and why is it that some people's enthusiasm is not as high as it was in the past? I think that an important reason is that ideological and political work is neglected, or not done vigorously enough. I do not deny in the slightest the importance of distribution according to work and material gains in the reform of the economic system, and that having the staff and workers be concerned about their own immediate interests heightens their enthusiasm for work. It should be said that this is an important result of our getting rid of "leftist" practices and, in the field of ideological and political work, in bringing order out of chaos, and also that it has already produced enormous results. However, this certainly does not mean we cannot pay attention to politics and not pay attention to consciousness. If we lose this superiority, a lot of work will also lose its motivating power.

Comrade Xiaoping has warned the party time and again: "The four modernizations that we are engaged in are the four modernizations of socialism, and we are not engaged in any other modernizations." Therefore, we stress that reform and the open door policy must come under the premise of upholding the four basic principles, and must be united with the process of building socialism with Chinese features. All of this requires the strong support of ideological and political work. If we depart from political work, depart from ideological education, and depart from the cultivation of the "four hases" talents, we will be unable to maintain the correct political orientation, and we could deviate from the goals we want to achieve. Some people now worry that China might turn capitalist. This worry cannot be said to be without some grounds. Over these several years, because of weak political work there have appeared some phenomena that people worry is an ill omen, and this should make us highly vigilant. If we are active in other aspects but forgo this major affair that is of comprehensive significance, then we will commit historic mistakes. We are historical materialists, and we recognize that the masses are the masters who create history and that the existence and development of society, in the end, is decided by the masses. However, this is not to say that we cannot educate the masses. If we depart from the mobilization and education of the masses, then we fundamentally cannot talk about having true faith in and reliance on the masses. Therefore, no matter whether we are talking about economics or politics, we must pay full attention to people's work and to people's ideological work. This is an important condition for achieving successes in our country's cause of socialist modernization.

In recent years, there has been much progress in ideological and political work, but there really exist problems of weakness and slackness. We may discuss three problems: First, some comrades have a muddled understanding of the importance and urgency of enhancing ideological and political work under the present circumstances, even to the extent that they take a skeptical and negative attitude. Second, stemming from the first one, some comrades do not stick firmly to effective traditional experiences and practices. Third, some comrades lack a profound understanding and thoroughgoing study of many problems under the new circumstances, and in the field of ideological and political work there are still many "realms of necessity." Therefore, in enhancing ideological political work, there is a problem of necessity and also a problem of what to do. It will not do not to solve well the problem of understanding necessity, and it will also not do to not handle well the problem of what to do. Some people lack confidence in ideological and political work, and to a very great degree this is directly related to the fact that we have not truly solved the problem of method. Since initiating the struggle against bourgeois liberalization, people's understanding of the extreme importance of enhancing ideological and political work has deepened quite a bit. Under these circumstances, there is not only a good condition and environment for conscientiously studying and solving the problem of method, but also the problem seems more urgent and important.

We must recognize this reality: after the 3d Plenum of the 11th CPC Central Committee, in China there have occurred changes in many aspects, and there have appeared many, many new situations and new problems, all of which bring many new topics to ideological and political work. For example, there is the change in the objects of ideological and political work. Compared with the people of the fifties and sixties, there are many aspects in quality in which the people of the eighties differ. In particular, the young people at present have a high level of education, wide contacts in society, and extremely lively thinking. The problems they think about and their train of thought in many aspects are different from ours when we were young. To only depend on the set of methods for ideological and political work in the past will often not get ideal results. Comparing the younger cadres now with the older cadres, because of the changes in environment and circumstances: First, they have not experienced war, and their ability to handle unexpected, complex matters is not like that of the older comrades, who "handle affairs coolly." Second, they have not lived very long, and after they have authority they easily become extravagant and wasteful. Third, it is a good thing to keep pace with reform. However, reform and enlivening the economy put comparative emphasis on economic results. To put a lot of stress on money and material benefits, if not handled well, will become a case of filling the head with money. Fourth, keeping pace with the open door policy originally meant having a good opportunity to study foreign advanced experiences, and many people went abroad to learn many things. However, there really are some people who learned few good things but learned many bad things, and those who have a "foreign style, foreign manner, and foreign flavor" the masses call "the foreign-brand cadres." These changes in the cadre ranks will bring a series of new topics to ideological and political work.

Again, for example, there have occurred very big changes in the environment of ideological and political work. Following the switch in the focus of the

party's and state's work, there have been a series of changes in the principles and policies in many fields and many aspects. How ideological and political work is to adapt to these changes is really a fairly complex and urgent question. Also, for example, there have been changes in the state and quality of departments and personnel who engage in ideological and political work. In brief, in the long course of building socialism in China, our country has entered a new historical stage, and there have appeared new characteristics in this stage. Under this kind of new historical condition, in our ideological and political work, it is incorrect to put sole emphasis on the change in circumstances and to belittle and even negate excellent traditions. Similarly, it is incorrect to ignore the changes in circumstances and to stay in a rut and stick to experiences already obtained. Without trail blazing, ideological and political work loses its vigor, and excellent traditions also cannot be truly carried on. On the basis of carrying on excellent traditions, we must constantly make reforms and blaze trails. We highly approve of this way of putting the matter, that is, we respect history, base ourselves on reality, and keep in mind the future. Under the guidance of Marxism-Leninism and Mao Zedong Thought, we should comprehensively study the new characteristics of our country in the eighties, conscientiously sum up the creations of the masses, absorb the results of modern science, and study all relevant experiences so that our ideological and political work better meets the new historical demands. The reason that I say that the comrades who engage in this work are engaged in an extremely important, extremely lofty cause, lies herein. I hope--and congratulate them beforehand--that everybody will, in this great cause, make greater contributions to its inventions, creations, and advances.

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CSO: 4005/710

GRASSROOTS JUDICIAL ORGANS STRENGTHENED

Beijing ZHONGGUO FAZHI BAO in Chinese 23 Feb 87 p 1

[Article by special correspondent Yu Xinnian [0060 2450 1628]: "China Has Built 14,500-plus People's Tribunals To Meet the Need of the Construction of the Legal System and To Strengthen Basic Work at the Grassroots Level"]

[Text] By the end of 1986, China's more than 90,000 townships established over 14,500 people's tribunals, 2,300 more than in 1983; by the end of 1985, people's tribunals had nearly 45,000 full-time cadres, nearly 13,000 more than in 1983. At present, cadres of people's tribunals account for one-fourth of all cadres working in China's courts.

As an agency of grassroots people's courts facilitating lawsuits for the masses, people's tribunals have directly handled the trials of a huge amount of general civil cases, simple economic cases, and minor criminal cases. In addition to doing a good job in the administration of justice, people's tribunals, along with judicial assistants, have paid attention to exercising leadership over grassroots mediating organizations, adopted some effective measures in light of local conditions, and enabled mediating organizations to give full play to their role as the first line of defense by watching out for symptoms of disputes and to resolve civil disputes in their embryonic stage. Coordinating with mediating organizations, these people's tribunals have handled many of the more than 10 million civil cases filed each year in China and thus effectively reduced the number of lawsuits. According to the statistics compiled by people's tribunals in four suburbs and five counties of Tianjin Municipality, mediating organizations under the jurisdiction of these people's tribunals mediated more than 11,450 civil disputes in the first 6 months of 1986.

Vigorously coordinating with the central tasks of local party and government organs, people's tribunals have also adopted various methods to publicize the legal system, handled letters and visits from the people, used legal means to solve many problems that cannot be solved through administrative means, and done a lot of work to improve social order in a comprehensive manner. In view of prominent issues that have a bearing on the reform and ideological and material progress and with the support of party committees and departments concerned, local people's tribunals in Yantai City of Shandong Province have since 1984 solved problems, starting with potential disputes, to smooth out

relations concerning the business contracts of villages, the internal management of integrated bodies, alimony, relations between people who are building a house and their neighbors, between husbands and wives, and between buyers and sellers. By doing so, they have scored notable social results.

Currently, vast numbers of grassroots people's tribunals are trying to overcome such difficulties as insufficient personnel, funds, and office space, continue to improve the political integrity and professional skills of tribunal cadres, upgrade working conditions, and meet as soon as possible the demand that two to three townships, or every 50,000-some people, should have a people's tribunal and every tribunal should have at least three judicial officers and one court clerk, which was set forth at the Fourth National Work Conference on the Trials of Civil Cases, so that the work of people's tribunals can be continuously adapted to the needs of the construction of China's legal system.

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CSO: 4005/571



## STRENGTHENING LOCAL-LEVEL PEOPLE'S CONGRESSES

Beijing ZHONGGUO FAZHI BAO in Chinese 16 Mar 87 p 2

[Article by Ren Dalian [0117 1129 5114]: "New Prospects Have Been Gradually Opened up for the Work of Local People's Congresses in Regard to Enhancing Local Legal Systems and Exercising Supervision"]

[Excerpt] Formulate Local Rules and Regulations

According to statistics, the standing committees of people's congresses at provincial, autonomous region, and municipal levels formulated 155 rules and regulations in 1986, effectively stimulating the progress of local legal systems.

**Draw up Legislative Plans:** The Standing Committee of the Fujian Provincial People's Congress and the Fujian Provincial People's Government jointly drew up a plan for the work of local rules and regulations and administrative rules during the 1985-87 period and made concrete arrangements for its implementation. The Heilongjiang Provincial People's Congress, government, court, and procuratorate decided at a joint meeting to make a 5-year local legislation plan to match the Seventh 5-Year Plan.

**Train Legislative Cadres:** The standing committees of provincial people's congresses and people's governments in Shanxi, Guizhou, Gansu, and Xinjiang jointly sponsored classes on legislation to organize cadres engaging in legislative work to study relevant party principles, policies, laws, and legislative procedures and to gradually build up the rank of legislators.

**Stress Investigation and Research and Solicit Opinions on Legislative Work From All Sides:** While formulating "Provisions on the Protection of Women's and Children's Legal Rights," the Standing Committee of the Zhejiang Provincial People's Congress distributed the draft to all townships and towns in the province to show it directly to the masses and solicited opinions from all sides in order to make these provisions more complete. With regard to the "Provisions of Tianjin Municipality on Protecting the Legal Rights and Strengthening the Control of Individual Industrial and Commercial Households" which took over 2 years to deliberate, draft, and pass, the Financial and Economic Commission of the Standing Committee of the Tianjin Municipal People's Congress and relevant departments of the municipal people's

government did a lot of investigation and research to make the provisions more suited to actual needs.

**Systemize and Legalize Local Legislation:** As of today, 22 provinces and municipalities have enacted local legislative procedures and made concrete provisions concerning the scope and drafting of local rules and regulations and procedures for proposing, deliberating, adopting, promulgating, amending, and abolishing legislative bills, thus systemizing and legalizing the formulation of local rules and regulations.

#### **Exercise Work and Legal Supervision**

The work and legal supervision exercised by provincial, autonomous regional, and municipal people's congresses and their standing committees over governments, courts, and procuratorates was strengthened in 1986. This was demonstrated specifically as follows:

**Listen to the Focal Points of Government, Court, and Procuratorate Work Reports in a Planned Manner:** The Standing Committee of the Jiangsu Provincial People's Congress has ensured that briefing on the work reports of relevant departments under the government, court, and procuratorate is always included in the agenda of its meeting and that one or two matters concerning the implementation of law and rules and regulations are reviewed at each meeting to promote the enforcement of law and rules and regulations. The Heilongjiang Provincial Meeting of the Chairmen of the Standing Committees of People's Congresses have heard in a planned manner briefings on the implementation of laws and rules and regulations by government organs, courts, and procuratorates.

**Earnestly Correct Legal Violations:** The Changge County CPC Committee of Henan Province, without the examination and approval of the standing committee of the county people's congress, made a public announcement declaring that both the chief and deputy chief judges of the county court were dismissed from their posts and that an acting chief and a deputy chief judge were appointed and then submitted a report on the removal and appointment to the standing committee of the county people's congress for examination and approval. The Standing Committee of the Henan Provincial People's Congress immediately sent people to Changge County to investigate and handle this matter along with others from the provincial higher people's court. They clearly pointed out that in dismissing the chief and deputy chief judges of the county court, the county CPC committee and the standing committee of the county people's congress had violated law both in procedures and practice. They urged the standing committee of the county people's congress to correct their mistakes immediately. The standing committees of the Guangdong and Shaanxi provincial people's congresses have promptly instructed relevant counties to earnestly correct legal violations concerning illegal removals and appointments of township mayors.

**Carefully Handle Bills and Delegates' Criticism and Suggestions:** The standing committees of provincial, municipal, and autonomous regional people's congresses have supervised government work by handling bills proposed by delegates. To solve drinking water problems for 9 million people in Shaoguan,



Zhaoqing, and Zhanjiang prefectures, the Standing Committee of the Guangdong Provincial CPC Committee organized an investigation group to probe into the matter and made a proposal to the provincial government demanding a complete solution within 5 years. The government now sets aside 8 million yuan a year to help gradually solve the problem for one prefecture at a time.

**Address Inquiries According to Law:** The Standing Committee of the Yunnan Provincial CPC Committee conducted thorough investigation and research of the fine-for-imprisonment issue concerning the customs office and the provincial industrial and commercial bureau. After obtaining a clear and thorough understanding of the situation, the standing committee addressed inquiries and had people from the customs office and the industrial and commercial bureau respond to them at a standing committee meeting.

**Hold Joint Meetings Periodically With Government Organs, Courts, and Procuratorates:** The practice that the standing committees of people's congresses hold joint meetings with government organs, courts, and procuratorates has been popularized in Hebei, Jiangsu, and Fujian provinces. Holding quarterly joint meetings has become a system in Heilongjiang Province.

**Include the Popularization of Legal Education in the Daily Agenda of People's Congresses**

After the NPC Standing Committee promulgated the "Resolution on Spreading Basic Legal Knowledge Among Citizens," the standing committees of all provincial, autonomous regional, and municipal people's congresses also adopted resolutions on spreading legal education, made the popularization of legal education an important agenda, and used various methods to exercise active supervision and guidance. Some provinces also approved a 5-year plan for spreading legal knowledge.

Local organs at all levels have conscientiously guided the developments in spreading legal education. The Standing Committee of the Anhui Provincial People's Congress has organized eight inspection groups to inspect and guide the work of spreading legal education throughout the province in regard to organizational leadership, plans, measures, methods, progress, and social results. The Standing Committee of the Heilongjiang Provincial People's Congress has sent people to three cities and five counties to inspect the work of spreading legal education, to review and publicize the experiences of those which have done a good job, and to set forth demands on those which still have many problems.

**Continue To Pursue Self-improvement**

The standing committees of all provincial, autonomous regional, and municipal people's congress have made great efforts to improve themselves. In the past year or so, they have worked hard to improve the political and professional qualifications of their members and employees. The people's congresses of Shandong, Liaoning, Hebei, Jiangxi, Anhui, Hubei, Guangdong, Shaanxi, and Gansu provinces, of the Beijing Municipality, and of the Nei Mongol Autonomous Region have sponsored regular study classes of legal systems to provide rotational training for the cadres of people's congress organs.

The Work of People's Congresses Has Taken One Step Further Toward Systemization and Legalization: To systemize and legalize the work of people's congresses, most provinces, autonomous regions, and municipalities have crafted rules and regulations for the work of standing committees of people's congresses. According to the statistics of local rules and regulations filed in 1986, 8 provinces formulated 10 local rules and regulations concerning the self-improvement of people's congress. According to Liaoning Province's statistics, 64 cities, counties, and prefectures passed 162 bills on detailed rules and regulations for the work of the standing committees of people's congresses, systems for contacting delegates, measures for supervising government organs, courts, and procuratorates, interim provisions for personnel removals and appointments, and measures for coordinating the standing committees of people's congresses with the work of government organs, courts, and procuratorates.

Strengthen Theoretical Studies: On the basis of the work done in the past few years, all people's congresses have begun to pay attention to strengthening theoretical studies on the work of people's congresses. Henan Province began in April 1986 to compile and publish RENDA NEICAN [THE INTERNAL REFERENCE OF PEOPLE'S CONGRESS] to introduce theoretical studies concerning the improvement of people's congresses, democracy, and legal systems, and the reform of the political system. Tianjin Municipality and Gansu Province opened a special column for the study of work in RENDA GONGZUO TONGXUN [THE NEWSLETTER ON THE WORK OF PEOPLE'S CONGRESS." The Standing Committee of the Sichuan Provincial People's Congress held a seminar on the improvement of local people's congresses and published a book called "A Study of the Improvement of Local People's Congresses" after the seminar.

Constantly Review and Exchange Experiences: The work of the standing committees of local people's congresses is new. In the past few years, the standing committees of local people's congresses have continued to explore and bring forth new ideas during practice, held experience-exchange meetings on the work of people's congresses, and strengthened horizontal ties to promote each other. In 1986, the standing committees of people's congresses in Beijing Municipality, Nei Monggol, Ningxia, Guangxi, and Xinjiang autonomous regions, and Hebei, Shanxi, Liaoning, Jilin, Fujian, Hunan, Henan, and Yunnan provinces held experience-exchange meetings either on the work of people's congresses or that of special commissions. Six provinces and one municipality in eastern China, six provinces and autonomous regions in northwest China (including Nei Monggol), and six cities in southwest China (Chengdu, Guiyang, Chongqing, Lhasa, Kunming, and Nanning) held symposia of chairmen of the standing committees of people's congresses. These meetings have drawn attention to the question of how to adapt the work of the standing committees of people's congresses to the reform of economic and political systems.

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HU SHENG ARTICLE ON SOCIALISM, CAPITALISM CRITICIZED

Hong Kong CHENG MING [CONTENDING] in Chinese No 114, Apr 87 pp 34-38

[Article by Li Yu [2621 3768]: "Socialism and Capitalism; Critique of Hu Sheng's [5170 4939] 'Why China Cannot Go the Capitalist Road'"; first paragraph is source-supplied introduction]

[Text] Capitalist countries can exist and develop by themselves, but socialist countries always have to rely on capitalist markets, because otherwise they can neither develop, nor even stay alive. Failure by socialist countries to "open up" would have not the slightest harmful effect on capitalist countries, but for the closed up socialist countries it would be fraught with great danger.

The CPC Is the Party That Prevented Development of Capitalism in China

The PEOPLE'S DAILY of 5 March published Hu Sheng's article "Why China Cannot Go the Capitalist Road?"

Before the Revolution of 1911, foreign imperialism did not permit China to develop capitalism; after the Kuomintang [KMT] reorganization of 1924, the CPC and the Communist International did not permit China to develop capitalism.

During the time of its rule over the mainland, the KMT basically had no opportunity to develop capitalism; only after its retreat to Taiwan, and due to having freed itself from communist entanglements, can the KMT be said to have had an opportunity to develop capitalism.

Hu Sheng is a well-known theorist of Marxism-Leninism in Communist China, but his present article, over 14,000 characters long, appears to be not so much a discussion of theory as it is political propaganda.

Over the length of more than 8,000 characters, Hu Sheng discusses history to explain the historical reasons why China could not go the capitalist road, but could only go the road of new democracy and socialism.

Adducing historical facts to prove certain views is absolutely necessary, but requires truthfulness to historical data, as it would otherwise be mere sophistry.

During the period from the Kang Youwei-Liang Qichao Reform Movement to Sun Yatsen's Revolution of 1911, development of imperialism by the capitalist countries reached its peak. In their efforts to carve up China and demarcate spheres of interest, the imperialist countries found it necessary to cooperate with Chinese feudal forces, with whom they jointly bled the Chinese people white, and precluded development and strong growth of Chinese national capital. Sun Yatsen's revolution was, therefore, unable to gain the support of the various imperialist governments (though it gained some support among the people), and Sun Yatsen had no other alternative than to turn to the Soviet Union for assistance. That was the situation at that time, which explains why there were international conditions that prevented China from developing capitalism.

At the end of World War II, German, Japanese, and Italian imperialism was destroyed, and the other imperialist countries abandoned their exploitative imperialist policies and adopted policies of "noncolonization" and "supporting national freedom." We may therefore say that at that time international conditions did exist that would have allowed China to develop capitalism.

But at that time, China, regretfully, again lacked domestic conditions for a development in this direction.

The fact that the national revolution was supported by the CPSU determined, first of all, that it was impossible for the KMT to develop capitalism in China. There were two more specific reasons:

First, the CPC had developed great strength. The Chinese Communists had at an early date made their revolution "part of the world's proletarian socialist revolution," declaring themselves "opposed to turning Chinese society into a society under bourgeois dictatorship" (see Mao Zedong's "The Chinese Revolution and the CPC" of December 1939). Even though the CPC had indicated some willingness after the war to organize a "coalition government" with the KMT and other political parties, that was only to be their stepping stone to wrest political power from everyone else over the whole country; it was merely a tactic of expedience.

We need not search for Chinese communist secret records, the true facts are evident simply from articles openly published by Mao Zedong. In his "On Coalition Government" Mao said: "If we establish a government system of a democratic alliance and united front under the leadership of the working class, based on the consensus of the vast majority of the people, we shall call this government system a new-democratic government system." He also said: "As soon as a new-democratic coalition government appears in China, the armed forces of the Chinese liberated areas will be handed over to it, and all KMT troops must be handed over to it at the same time." ("Selected Works of Mao Zedong," pp 957 and 974) "Leadership of the working class," as mentioned here by Mao, actually means leadership of the CPC. The "coalition government of new democracy" is a coalition government under the leadership of the CPC,

and through a "coalition government of new democracy" Mao thought he would also be able to take over the KMT army for himself.

To place all responsibility for wrecking the "coalition government" on Chiang Kai-shek's KMT, as Hu Sheng does, is inconsistent with historical facts; both sides acted without sincerity.

Second, the corruption within the KMT itself.

For the above-mentioned two reasons, China had been deprived of domestic conditions that would have allowed the development of capitalism.

Hu Sheng again asserts that the KMT had missed two opportunities to develop capitalism, when he said: "By turning against the communists in 1927, the KMT failed in a great achievement whose success was within reach, and it was then that China lost an opportunity to create favorable conditions for the development of capitalism. At the conclusion of the War of Resistance against Japan, the KMT stubbornly refused to establish a democratic coalition government and thereby for a second time lost a similar opportunity."

This is not being honest with history.

In 1927 China was not yet really united. Even if the KMT had not turned against the communists, the CPC was bound to take a stand against the KMT. How could the CPC ever have permitted the KMT to set up a truly bourgeois regime?

A good example is the Russian October Revolution of 1917.

In the February Revolution of that year, the masses of workers and soldiers toppled the czarist regime, and a provisional democratic revolutionary government, the Kerensky Government, was set up. But Lenin disapproved of Kerensky's "bourgeois regime," because he attributed the main credit for the overthrow of the czarist rule to the Russian working class. Thus he launched an armed uprising in October of that year and overthrew the democratic regime, which has hardly had time to consolidate its power, to set up a soviet regime.

In 1924, Sun Yatsen carried out a reorganization of the KMT with the help of the CPSU, and many highly placed members of the CPC sat in the KMT Central Committee in their capacity as persons of "dual-party membership." In the subsequent eastern and northern campaigns, communists fought heroically and with distinction (communist propaganda of the past would have us believe that all merit in the eastern and northern campaigns belongs almost completely to the CPC). If the KMT had really established a bourgeois regime after the Northern Expedition had basically come to an end in 1927, the communists would certainly not have accepted it, and would they then not have imitated Lenin's example and staged a Chinese "October Revolution" before the bourgeois regime would have had time to consolidate its power?

As to establishing a "coalition government" in 1946, its purpose was, as we said earlier, to serve as a stepping stone for the CPC to take over the whole country. Mao Zedong was indeed frank about it; once he said, "imperialism did

not allow" China to develop capitalism, and once he said, "socialism did not allow" China to develop capitalism (see his "On New Democracy").

We have to admit, therefore, that the KMT has had absolutely no opportunity to develop capitalism during the time it was in power on the mainland. Only after its defeat on the mainland and removal to Taiwan, and due to having freed itself from communist entanglements, was there a real opportunity for the KMT to develop capitalism.

This shows that before the Revolution of 1911 it was foreign imperialism, and after the KMT reorganization of 1924 it was the CPC and the Communist International that did not allow development of capitalism in China.

This is China's modern history.

#### It Was the CPC That Strangled New Democracy

Hu Sheng posed the question: "Some may perhaps ask, why would it not do to merely continue with new democracy without transition to socialism?"

To which Hu Sheng himself gave the answer: "This is impossible. A socialist economy exists already within the new democratic society; this is mainly its state-run economy. (At that time there was still very few socialist cooperative economies.) Private capitalist economy is not possible without state support, cannot exist without developing all kinds of links with the state-run economy, its turning into a state capitalism cooperating with private capital is an inevitable trend. In 1956, when the socialist transformation of agriculture, handicraft industry, and capitalist industry and commerce was basically completed, the transition from new democracy to socialism was achieved much faster than estimated in the overall projections of the 1952-1953 time tables. That was possible because the objective situation had created feasibility and necessity; it was something that could not be determined by the will of any particular person. That this transition was achieved so smoothly proves that the policy of the party and the state in this respect completely conformed with the objective needs."

Hu Sheng's long-winded answer is no clear reply to the question why the transition from new democracy to socialism had been necessary. He talks of many other things and makes, we feel, a rather incoherent speech.

We shall now give some of our own opinions on certain points in Hu Sheng's "answer."

I. Is the existence of some state-run economy or the development of various linkages between private enterprises and state-run enterprises a single valid argument for effecting "socialist transformation"?

In worldwide perspective, this theory is untenable.

Taiwan has much state-run economy, also many linkages with privately operated enterprises, but feels no compelling need to "transform" its private enterprises into socialist enterprises. The same is true with Great Britain.



There are even more state-run enterprises in some of the North European countries, for instance, over 50 percent in Sweden; these countries, furthermore, have socialist systems, but feel no compelling reason to transform private enterprises into "socialist" enterprises.

II. Is the fact that China's "socialist transformation" was achieved faster than projected an indication that it "completely conformed to objective conditions"?

According to the Marxist viewpoint, assessment of the right time for such transformations must not be merely based on human conceptions, but, on the contrary, "human conception must gain its understanding from within the contradictions of material life and from the existing conflicts between social productive forces and production relations." Marx also said: "The elimination of classes will take place under the precondition of a high development of production."

Chinese productive forces in 1952 and 1953 were still very weak, evidently lacking the material conditions for the social revolution, of which Marx speaks. The "socialist transformation" of agriculture, handicraft industry, and capitalist industry and commerce that was carried out nationwide from 1953 on was essentially based on the "will" of a small group, the top echelon in the CPC (being mainly Mao Zedong), while Liu Shaoqi's opposition to what he thought was too early a cooperative transformation of agriculture and socialist transformation must be seen as an attempt "to truly establish a social order of new democracy."

III. Why then could the "socialist transformation" be accomplished so very smoothly? The reasons for that, in our opinion, are the following:

1. The level of Marxist knowledge in the country was low, and there was general ignorance of what Marxism is. Furthermore, the educational level of most cadres was too low to be able to understand Marxism. Even if some individual scholars of Marxism-Leninism were highly proficient in Marxism-Leninism, these men frequently yielded to those in power and of influence and did not dare express their own opinions; they had even less courage to stick to their independent opinions. Many facts prove that persons who expressed dissenting opinions would as often as not suffer suppression or at least have to endure "criticism" by those in power. Even the PRC's deputy chairman, Liu Shaoqi, and the president of the Central Party School, Yang Xianzhen [2799 3759 3791], could not escape an ill fate. This shows that only those in power decided the criteria for Marxist truth. For the majority of party members and cadres, who were poorly educated and blindly loyal, Mao's words were Marxism.

2. The prestige of the Communist Party was so much higher than that of the KMT, who had ruled the mainland only shortly before. At that time the Communist Party had the widest support of the people and therefore also the greatest appeal for the people.

3. The method employed against the bourgeoisie by the Chinese Communists was one of "striking and stroking" alternately.

"Striking" was done either politically, backed by the PLA--as Mao said: "Once the powerful machinery of the state is in the hands of the people, we need not fear revolts of the national bourgeoisie."--or it was done economically by imposing various restrictions on private industry and commerce, as, for instance, by state control of raw and semifinished materials, of all ex-factory and retail prices, and by obligatory welfare insurance of workers, so that capitalists had absolutely no way of making a profit. In addition, the "three anti's" and "five anti's" of 1952 made it impossible for capitalists to go on.

By using the above-stated oppressive and cruel methods to bankrupt the capitalists, the Communist Party left the capitalists with no other way than to either liquidate their businesses or hand them over to the state.

"Stroking" was done by showing with a great friendly smile utter solicitude for the future of the capitalists, proclaiming to each capitalist individually that by just surrendering his factory, turning it into a joint private-public operation, he could remain factory director or manager. Even if they would decline to remain as such, the Communist Party would assuredly hold itself absolutely responsible for them (communist propaganda aimed at them at that time had formulated the "ten-point assurance," which I don't remember well because of the lapse of time, but seems to have comprised assurance of dividends, bonuses, salary, medical care, and retirement pension, everything from birth, to old age, to sickness, and death). In the predicament in which they found themselves, the capitalists no doubt felt like "stranded fish returned to water," when they received the "ten-point assurance" from the Communist Party. There were of course some capitalists who were unwilling to act as suggested. Handing over to the state an enterprise that for several generations had been built up by their family and seeing it vanish while in their trust, was something they could not endure with the thought of their ancestors that had gone before them and of the children and grandchildren that would follow them in the future, so that they preferred to commit suicide by jumping to their deaths. There were indeed many suicides in those days.

4. The method used on the peasants was a combination of intimidation and criticism. Continuous intimidation was exerted on the peasants, who had just received land, by telling them that if they would not join the cooperatives, it would result in "class polarization," and would bring back the Huang Shiren-types [7806 0013 0088]. The peasants would then suffer double hardship and have twice as bad a time. There was, furthermore, continuous criticism of "rich peasant mentality" and "well-to-do middle peasant mentality." There was also continuous criticism of "rich peasant mentality" and "Right opportunism" within the party and among the various levels of cadres. This is fully described in volume 5 of Mao Zedong's "Selected Works," where Mao calls the cooperative transformation of agriculture "a serious class struggle."



5. China is again a realm of petty bourgeoisie, which includes the Communist Party cadres, the vast majority of whom had come from the petty bourgeoisie and who generally had a natural petty-bourgeois fanaticism, radicalism, and egalitarianism.

The above-listed five soft and hard conditions were the main factors for the comparatively smooth accomplishment of the "three major transformations," and it was not at all a matter of "complete conformity with objective needs," as Hu Sheng states.

#### IV. Supposing There Had Been a New-Democratic Society for 10 Years

If things had been handled along the line of Liu Shaoqi's suggested "establishment of a new-democratic social order" and a new-democratic society had existed for 10 years, what would have happened?

Dictated by Mao Zedong's "perception," the CPC in July 1952 fermented the destruction of the national bourgeoisie. Started in 1953, the "socialist transformation" was completed everywhere by June 1956, and from that time on a pseudo-socialist despotism with a highly centralized state power was established, which even robbed the peasants of all rights of determining their own production and distribution, and it is from that time on that there was constant turmoil and internal strife.

The situation at that time was that China's national industry and commerce experienced a time of considerable development during the 2 years, 1950 and 1951, under the protection of the "Common Program" of 1949. Hu Sheng acknowledges: After 1949 "the privileges of imperialism in China had been abolished, there was no further oppression by bureaucratic capitalism, and land reform had been completed throughout the nation. As a consequence, national capital enjoyed favorable conditions as it had never before enjoyed in old China."

After Chinese peasants had generally obtained land by 1950, agricultural production greatly accelerated. Consider also that at that time the "War to Resist U.S. Aggression and Aid Korea" was going on, and despite the fact that the Chinese people had to bear the huge war expenditure, there was still an improvement in the people's livelihood.

However, dictated by Mao Zedong's "perception," the CPC in July of 1952 fomented the destruction of the national bourgeoisie. In his directive to the whole party, Mao said: "After smashing the landlord class and the bureaucrat capitalist class, the major internal contradiction in China is the contradiction between the working class and the national bourgeoisie, and we must, therefore, not anymore call the national bourgeoisie an intermediate class." ("Selected Works of Mao Zedong," Vol 5, p 65) At the end of that year, the propagandist document, "The General Line of the Party During the Transitional Period," was issued. The "socialist transformation," which had been started in 1953, was completed everywhere by June 1956, and from that time on a pseudo-socialist despotism with highly centralized state power was established, which even robbed the peasants of all rights of determining their

own production and distribution, and it is from that time on that there was constant turmoil and internal strife.

If the "establishment of a new-democratic social order," suggested by Liu Shaoqi, had been put into practice, it is quite possible that China would by now have reached a state of great prosperity, and at least not lag behind Taiwan. But now, it is decades behind Taiwan.

The above-stated four points reply to Hu Sheng's question and answer.

Hu Sheng says that the completion of the "three major transformations" ahead of time "completely conformed with objective needs." His purpose is to cover up the mistakes of truly historical proportions committed by Mao Zedong and the Chinese Communists and to whitewash them.

The Outdated Concept of Socialism and Capitalism Being Antagonistic Opposites

In the last chapter of his article, Hu Sheng wants to "talk a little about the relationship between socialism and capitalism." How does he express it? "Only by destroying the bourgeois ownership system of the ruling capitalist society can the socialist system of public ownership be established. The socialist system and the capitalist systems are, therefore, two antagonistic opposites." At the end, he also says: "The socialist system has already taken deep roots all over China" and "has manifested an abundance of vitality."

What should be pointed out here is:

First, if the socialist system has "taken deep roots all over China," why is there still this great fear that the Chinese people will "negate socialism"? The frequent launching of campaigns against Rightist trends, the frequent accusation of people "negating socialism" and "breaking away from socialism," is there not a contradiction in all this? If "deeply rooted," there should be no fear of storm or rain. Seemingly this "tree" of socialism is set loosely in sandy soil because every time the students cough, there is fear the tree will be blown over.

Second, there has never been "abundance" in the socialist system, but there has been at one time an abundance of "socialist ideology," and that was in a period from the latter half of the 19th century to the beginning of the 20th century; socialist ideology now finds a market only in some poor countries. As to the "socialist system," it has been sliding down ever since the fifties of the 20th century. By now, socialism has acquired a very bad reputation; socialism has a flavor of poverty, backwardness, empty shelves, and politically as synonymous with "despotism" and "totalitarianism."

The reason why there is still some vitality left in China today is due to a favor for which capitalism must be thanked--it is due, in other words, to the policy of "opening up to the outside world." This "opening up" means opening up to capitalism, namely to allow capitalist elements to penetrate. The system of "setting farm output quotas for each household" in the rural areas is a capitalist element. Only by relying on capitalist factors is it now possible for China to maintain a thread of vitality in socialism.

Third, at the same time as socialism is declining in countries under communist parties, another kind of socialism has developed during the 1950's and 1960's, which has abandoned the Marxist theory of "class struggle," and that is the systems in such North European countries as Sweden, Switzerland, Denmark, and Norway. This new type of socialism has no need at all for "the destruction of the bourgeois ownership system," but on the contrary it destroys the proletariat--by elevating the proletariat to become middle class.

Fourth, the countries of northern Europe consider themselves socialist; the whole world acknowledges that they are indeed socialist, only the communist countries will not acknowledge it, but will consider these countries capitalist. Apart from this being an attempt to cover up the failure of socialism as practiced by communist parties, it illustrates another thing: The "North European type" appears as an intermediary between Marxist socialism and Western capitalism, or, we may say that it is a blend of both.

Thus it makes no sense at all today to speak of "fundamental antithesis" of socialism and capitalism, as Hu Sheng still emphasizes.

Fifth, Hu Sheng shows by emphasizing the antithesis of socialism and capitalism that his perception still remains that of the Marxist era of the latter half of the 19th century. If the perception of Hu Sheng, who is a scholar and also president of the Chinese Academy of Social Sciences, still remains at the level of 100 years plus some decades ago, what must it be among other members of the Communist Party.

The fact is that capitalism is no longer the capitalism of the time of Marx.

Capitalism has long become interspersed with socialist elements. There is the case of President Roosevelt who in 1935, when he saw the large-scale unemployment of American workers, adopted without hesitation certain socialist elements, in particular the social welfare system. Other capitalist countries sooner or later followed his example. Of course, the first to institute a social welfare system was Germany's Bismarck. Engels showed little understanding when he ridiculed it by writing: "What makes rulers and ruled appear so ridiculous here is Bismarck's new German Empire establishing here a mutual equilibrium between capitalists and workers." ("Selected Works of Marx and Engels," Vol 4, p 168) Engels' statement, "the equilibrium between capitalists and workers," was very much to the point. But what he did not think of was that this "equilibrium" put to rest the "antagonistic confrontation" and made his "proletarian revolution" go up in smoke.

Following World War II, the Keynesian supply school of thought was all the rage for a time, and with state participation, this social welfare system was further perfected, resulting in an even stronger "equilibrium" between capitalists and workers. Workers in all genuinely capitalist countries do not feel at all that they live in a life-and-death confrontation with the capitalists. Finally, such Marxist doctrines as reliance on a revolution of the working class and doctrines that expound the need to destroy the bourgeoisie no longer find a market in capitalist countries.

None other than communist parties still close their eyes to the realities, blindly propagate the "antagonistic confrontation" of working class and bourgeoisie, and still blindly assert in their propaganda the "exploitation" of the working class by the bourgeoisie.

Sixth, development of an information society (called by some the "post industrial society"), symbolized by the launching of satellites, gradually destroys the production workers on whose revolution the communists had originally relied. The way this destruction takes place is of course not as cruel as communists would do it, using knives and guns in a bloody civil war. The method by which the information society destroys the workers is very civilized, namely through the development of modern science and technology, through raising the educational, scientific, and technological level of the workers, and through turning the nonpropertied into propertied, raising them to become middle class, well-provided with food and clothing, and intellectually enriched.

Seventh, up to now there is only one market in the world, and that is the capitalist market.

Stalin in his time thought that there were only two markets in the world, namely, one capitalist and one socialist market. The late Qian Junrui [6929 0193 3843] had been of the same opinion, and, furthermore, agreed with Stalin's dictum that "the socialist market is daily widening," while "the capitalist market is daily shrinking." But nobody believes this line anymore. Huan Xiang [1360 6763] said: "The socialist market has actually never materialized; there is only one market in the world, the capitalist market."

The capitalist countries can exist and develop among themselves, but the socialist countries simply have to rely all along on the capitalist market, or else they would be unable to develop, even unable to stay alive. Under the conditions of an information society, the world has become smaller, and it is most advantageous to have mutual interchanges. However, failure by socialist countries to "open up" would have not the slightest harmful effect on the capitalist countries, but it would be fraught with great danger for the closed socialist countries.

If Hu Sheng and some other conservative communists still firmly maintain today that there is an "antagonistic confrontation" between socialism and capitalism, not only will they have lost all credibility among the working class of the Western countries, but even the Chinese working class will most likely give them no credence.

#### "Makeup Lessons" and Other Things

Two minor questions will be discussed here--they are minor questions in my opinion, though Hu Sheng and some other communists may consider them major questions.

First, the question of "makeup lessons."

Hu Sheng will consider "makeup lessons" of this nature a "mistake," and will think that one should only make "supplemental studies of the knowledge of other nations with capitalist systems and should study only things that are essential for socialist construction."

His is possibly only an argument to save "face." The communists are very sensitive about the concepts of "leadership" and "control"; they will under no circumstances tolerate matters to be dominated by others, especially intellectuals cannot be credited with "precursory leadership." Liu Shaoqi's ideas, be they ever so accurate, were "precursory" to Mao Zedong's and were therefore bound to be set aside. Wei Jingsheng's [7614 0079 3932] "The Fifth Modernization--Political Democratization" and "Without Democratization No Four Modernizations" contained absolutely correct statements, but they were "precursory" to Deng Xiaoping's ideas, and although Deng Xiaoping later also realized that "there cannot be socialist modernization without democracy" (see "Selected Works of Deng Xiaoping," p 154), it would have damaged the prestige of this "patriarch," and was therefore intolerable to him, that a youngster be a "precursor" to himself, so he had to liquidate him.

The "supplemental studies" that Hu Sheng talks about, are they not really "makeup lessons" too? No matter whether these "makeup lessons" are comprehensive or partial, they are indeed "makeup lessons." However, the communist party is relentless in the question of "face," and will not tolerate these "makeup lessons," particularly because they were first proposed by nonparty people, even by overseas Chinese intellectuals. If the "makeup lessons" had been first proposed by Deng Xiaoping, they would certainly have been truth par excellence.

Second, would adoption of capitalism necessarily mean a return to feudalism and semicolonialism?

That is merely a kind of threat, just as old Mao threatened the peasants, if they would not join the cooperatives, there would be a "polarization" and they would suffer double hardship and be twice as bad off.

Taiwan practices capitalism; was there a "return to semifeudalism and semicolonialism"?

The political situation in the world has greatly changed from what it was before the war. There is no more discrimination against other countries for developing capitalism. That the Chinese Communists want to reintroduce the old almanacs of 60 or 70 years ago for current use is too ridiculous. The more comprehensively the Chinese Communists would rather take up "makeup lessons" in capitalism, the more beneficial would it be for the state and the nation, and if they would do so, the acquisition of advanced science and technology from Western countries would then certainly present no further problems.

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## INFLATION SAID UNAVOIDABLE IN COUNTRY'S ECONOMIC DEVELOPMENT

Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 2, 15 Feb 87 pp 5-7

[Article by Hu Yuanlong [5170 6663 7893], the Shanghai Airforce College of Politics: "Upward Trend of Prices is Inevitable in China's Economic Development"]

[Text] An accurate knowledge of the trend in the movement of China's overall price level is of major importance for the further reform and perfection of the irrational price structure, for which the leadership and the rank and file should work together with one heart and in full cooperation.

Surveying the capitalist world, we see that in every country without exception prices have shown an upward tendency since the country began to circulate paper currency. Comparing consumer goods prices of 1976 with those of 1950, the increases were: for the United States 141 percent, for Japan 382.1 percent, for the FRG 116.9 percent, for Great Britain 377.8 percent, for France 328.3 percent, and for India 265.9 percent. The rise in commodity prices is inevitable in socio-economic development, a phenomenon which can hardly be said to be a product of capitalism. Actually, prices in the Soviet Union and East European countries have also without exception gone up. From 1970 to 1982, retail prices have risen: in Bulgaria 24 percent, in Hungary 78 percent, in Poland 279 percent, and in the Soviet Union 8 percent. Comparing 1984 with 1952, the level of China's commodity prices has on the whole risen 43.2 percent, which is very commendable, but these have been increases truly not willingly brought about. I believe that it is inevitable that in line with China's socio-economic development China's price level will still go up. This conclusion has been reached on the basis of the following factors:

1. Demand Will Make Prices Rise

A principle of economics tells us that whenever the supply of commodities cannot satisfy demand, it will lead to prices increasing beyond value, which means raising prices. The overall demand exceeding overall supply is a trend that will prevail in China's economic development for a long time. Demand is the demand of the population. According to expert computations, it will hardly be possible to contain China's population during this century within 1.2 billion; the figure will be exceeded somewhat. The strength of a demand of a population of 1.2 billion, and its force to drive prices for products up,



is beyond imagination. As the population increases numerically, its quality should also be continuously raised. The 1.2 billion people will not only want to exist, but also to enjoy life and develop, which can only be ensured by providing huge amounts of the means of material livelihood. We may therefore say, that there is a huge demand in China by people with purchasing power, and this demand is still continuously on the increase, indicated by the continuous increase in currency. For instance, in 1984, the average annual wage income was 1,123 yuan; it increased to 1,373 yuan in 1985. The income of peasants and other strata of the population also continuously increased, while the latent demand of those who for the time being have no purchasing power yet is even more alarming. The huge pulling force of demand is a motive force of economic development, but at the same time also an inhibiting force. Some have pictured our demand as the wide open bloodthirsty jaws of a hungry lion, ready to swallow anything that will satisfy his hunger. This huge demand is bound to stimulate price increases.

## 2. Production Costs Will Induce Price Increases

On the one hand, production costs for agricultural products and energy, such as coal, petroleum, electricity, and heat, as well as for raw and semiprocessed industrial materials, are continuously rising, while the prices for these products themselves are unrealistically low. This has a serious adverse effect on the enthusiasm of the workers in these sectors, and an upward adjustment of prices for these products is imperative. Higher prices for agricultural products, raw and semiprocessed materials, mining products, and other such primary products are bound to cause cost prices of the processing industry to go up. Even though the processing industry may do its utmost, it will not be able to absorb internally and within a short time the factor of increased prices for raw and semiprocessed materials. Under these circumstances, there are only two alternatives: either to reduce, even abolish taxes, or to raise the prices of products of the processing enterprises. Reducing or abolishing taxes will have a serious effect on the state's revenue, and is therefore an inadvisable alternative, leaving only the other alternative, namely to raise prices. This is why we now have the enterprises loudly clamoring for price increases.

On the other hand, wage earnings are continuously rising and are also causing higher production costs. A Hungarian economist pointed out: In the developing countries, consumption funds easily become inflationary, particularly in socialist countries. In the developing countries there exists objectively a "demonstrative consumption effect." Socialist countries find it difficult to hold down within short periods of time the strong drive for consumption in the enterprises, because it is the staff and workers of the enterprises who are maintaining the current consumption drive and are always demanding the largest possible increases in salaries and wages. The salaries of the enterprise leaderships are also fairly low, and they too, out of various considerations, demand increases in their incomes, salaries, bonuses, etc. Furthermore, viewed from a macroeconomic standpoint, there is a preponderance of aged in the composition of China's population and as retirement payments must be figured in costs, they will also add to production cost increases.

### 3. Price Increases of a Structural Nature

Productivity does not increase uniformly throughout the various sectors of a country, and the monetary increase in wages in a country frequently shows up first in the sectors of very rapidly increasing productivity. The rate at which wages increase in different sectors will show the same tendency, i.e. the monetary wage increases in sectors with slowly rising productivity have a tendency of "keeping up" with sectors of rapidly increasing productivity. Furthermore, all increases in wages and commodity prices are very elastic, and are in this way bound to create price increases of a structural nature. For instance, Chinese products that do not sell well are basically priced too low, while many products that sell well are priced too high. Under these circumstances, there is a tendency of restraining price increases for the products that do not sell well, but for the products that sell well there is a tendency to restrict production, but not one of reducing prices. This is bound to lead to increases in the overall level of prices.

### 4. Influence of International Prices

With a continuous expansion of the open door policy, Chinese prices become increasingly affected by international prices. Currently, prices for all products, almost without exception, are increasing in every country of the world. Many Chinese and foreign experts propose that Chinese prices should be linked to international prices; this is a wise move. Keeping Chinese prices steady and unchanged over a long period of time, will certainly have an adverse effect on the development of China's foreign trade. It would also be detrimental to raising the international compatibility of Chinese products and to any expansion of exports. If prices were linked, there would certainly be a closer connection with international prices, and there would be every likelihood that China's domestic prices would go up as international prices rise.

It shows that the rise in China's prices is nothing that human will can change. Some comrades question: Between 1952 and 1984, China's commodity prices increased at an average annual rate of 1.13 percent; was that not keeping them basically steady, and why can this not also be done in future?

First of all, the quantitative limits of the basic stability of prices, I believe, are ambiguous and vague. In the 1960's and in the middle of the 1970's, there have been ups and downs in the quantitative limits of "basic stability," so that the quantitative limits basically amounted to zero. Later, commodities for which prices were raised increased, and commodity prices in the market rose 1 to 2 percent every year. Finally, it was set forth that commodity price increases not exceeding 2 percent per year should constitute "basic stability." In 1980, when retail prices rose 6 percent over those of the preceding year, a new interpretation was again put forward: If the increases over a long period of time do not exceed the annual average of 2 percent, and if, after price increases, staff and workers are paid allowances to compensate for higher prices, the situation may still be considered "basically stable." The price reform has now taken a small step forward, and everybody realizes clearly that if an orderly price relation is to be established, it is inevitable that market prices will experience an increase



of considerable proportions. At this time, many comrades come up with a new interpretation: the so-called stability of commodity prices must be discussed in relation to actual income of staff and workers. If commodity prices do not rise above the increases of staff and worker incomes, that is "basic stability." If this interpretation were correct, the majority of countries in the world would be following a policy of stable commodity prices, because we see from a large amount of statistical material, that in the majority of countries and territories of the world, increases in wages exceed increases in commodity prices. I therefore believe that there is no sense in these interpretations of basic stability of commodity prices. On the contrary, our scholars are creating a confusion of ideas with regard to China's "basic stability of commodity prices."

Second, if we say that China's prices had been "basically stable" in the past, this was due, in my opinion, not at all to an inherent strength of the prices themselves, but due to:

1) Control of the economy in the past by purely administrative measures, without paying full attention to the function of market and price laws, as demonstrated by primary reliance on fixed prices in the price control system, with very few instances of floating prices or free prices. In the wake of the reform of our price system, there has been a gradual shift from the traditional pattern to a market price system under plan guidance. At this time, the position of fixed prices, which had been so important for the "basic stability of commodity prices" of the past, will be correspondingly weakened.

2) Large subsidies by the treasury. In 1983 alone, the treasury spent as much as 34.2 billion yuan for price subsidies, which accounted for 27.4 percent of that year's revenue. Without such huge subsidies by the treasury, the commodity price index would certainly have shot up much higher. However, the huge amounts spent as price subsidies constitute a heavy burden on state finances and definitely reduce the state's capital allocations for such sectors as communications, energy sources, education, research, as well as for some of the newly arising industrial sectors, and have an adverse effect on the continued, stable, and harmonious development of the entire national economy. Some beneficial effects of financial subsidies cannot be denied, and there may possibly be need, now and in future, for further financial subsidies. The problem is: If the irrational pricing system is not put in order as the economy develops, the state's expenditure for price subsidies will increase to an extent that will obviously become unbearable in view of the financial resources of the state.

3) China's commodity price index figures did not rise very much, but there has been another kind of price increases, the very widely practiced disguised form of price increases by reducing quality without changing prices. This is a much more insidious and very much more harmful price increase, and we must show firm determination to eradicate it.

To sum up, the "basic stability" of commodity prices in the past has had positive effects, but the price paid for it was too high, and is gradually becoming unbearable for the financial resources of the state; the price situation has to be changed. The adjustment and reform of prices is bound to

result in increases in commodity prices. These increases are not at all due to our reform of the price system; they are partly old accounts that have remained to be settled, and partly inherent demands of the price movement. We must certainly not allow the fact that there will be quite considerable price increases following the price reform, to affect our understanding of the significance of price reform and must even less allow this fact to become a reason for stopping the price reform.

Many comrades believe that after price reform the general level of commodity prices will stabilize at a certain new and much higher point. I am not convinced that this will happen. After reform of the price system, it is possible that commodity prices will for a short time become stabilized at a much higher point, but in the long run the general level of prices is still bound to move upward, unless we return again to the traditional price pattern, which, as practice has proven, had shown many disadvantages. As to the magnitude of the future increases in the price level, this will be determined by the development of China's national economy and the correct and effective guidance and intervention by the government.

9808

CSO: 4006/570

## MORE RELIANCE ON MARKETS TO RAISE FUNDS FOR BUSINESSES

Beijing JINGJIXUE ZHOUBAO in Chinese 26 Apr 87 p 6

[Article by Xu Yan [6079 6056]: "Need For Transfer to the Market Mechanism of Funding Within Enterprises and Banks and For Capital Construction"]

[Text] First we will discuss the funding of working capital in enterprises. A supply system for working capital has been practiced for many years in the country, such funds being issued first by the treasury after which they are completely in the charge of banks. The result has been rigidity in the funding of working capital, difficulty in getting back funds once placed in circulation, and extremely poor economic results. Enterprises themselves have lacked the ability to supplement working capital, and banks have also been powerless to completely underwrite the supply of working capital. In a macroeconomic sense, the issues that this situation reflect are as follows: Either risk the danger of an imbalance in bank credit and stable development of the entire national economy by opening wide the supply of working capital, or risk suffocation or low speed development of the entire national economy by the adoption of rigidly tight money policies. The issue is essentially that the old working capital funding mechanism neither solved the problem of equitable augmentation by enterprises themselves, nor did it solve problems with funding efficiency. There is only one way in which to solve problems in the aforementioned two regards, namely to go to the market. a) Establishment of channels whereby enterprises themselves can augment working capital. Under present circumstances, enterprises have to become truly independent persons responsible for their own profits and losses, with the ability to develop themselves after payment of taxes. b) Establishment of a sound short-term loan credit system. Default in making payments is widespread in China today reflecting the universal existence of enterprises living on commercial credit. Such a commercial system that does not use bills is one of the reasons for the intense shortage of working capital. This kind of defaulted payment commercial credit should be changed into commercial credit that uses bills as a way in which to form a sound short-term finance capital system among enterprises. In addition, a mechanism for the rating of enterprises' credit-worthiness should be established to spur the use of bills in markets where money market transfers and discounting can be done to solve the problem of insufficient working capital for enterprises. Such a use of discounting to augment working capital is not only good for the economy, but it is an augmentation of capital of a purely economic nature

that benefits the benign cycle of the national economy and that cannot exert inflationary pressures. c) Enterprises might also issue stock shares and debentures as their development needs require to raise funds to solve the shortage of working capital. Entry into the market can be used to set up working capital funding channels to solve problems such as poor economic efficiency and slow turnover of funds resulting from the supply of funds not being able to meet demand.

We will now discuss the funding of bank credit. This means principally funding within banks. The key here lies in the need to solve problems having to do with vertical distribution and administrative movement of credit funds throughout the country. Past funding relationships between the central bank and specialized banks have been founded on quota allocation and transfer, and vertical distribution, which resulted in completely administrative funding in which administrative organizations were the intermediaries and administrative methods were the vehicle. The consequence was "either strangulation from tightening up or chaos from loosening" with no elasticity at all, which frequently meant a lack of vigor in macroeconomic control. The solution lies in entering the market. This can be done by specialized banks using the channels provided them by the central bank for rediscounting and remortgaging in financial markets and in open market operations. With a sound credit system for short term finance capital among enterprises as a basis, and with negotiable securities serving as support, specialized banks could get short term finance capital from the central bank as their needs for funds required. For its part, the central bank could promptly readjust the rediscount rate, and the remortgage interest rate, and issue or call in negotiable securities as actual circumstances in development of the national economy warranted, thereby affecting specialized banks' levels of assets and liabilities to effect macroeconomic control. Next, by influencing interest rates, the central bank could regulate reloan funds at the proper time, thereby directly affecting specialized banks' ability to make loans. In addition, specialized banks could use the discount market to make short-term loans to each other. A discount market now functions throughout the country, but a crucial issue is the need for control of its interest rates. Uniform discount interest rates would help objective regulation and control. In these three ways, the former funding track inside banks, which was of an administrative character, could be changed to a new funding track in which the market mechanism predominates.

The third topic for discussion is the funding of capital construction. Loss of control over capital construction has always been a headache in China. The history of the past several decades shows that capital construction puts pressure on the treasury, and the treasury puts pressure on banks, and banks issue paper money. The appetite for investment is very hard to satisfy. But the root of the problem is in the old capital construction funding mechanism. Though a change from allotments to loans has been made during the past several years, this has not fundamentally solved problems with the funding mechanism in the capital construction funds distribution system. The solution lies in going to the market. First of all, feasibility studies

can be used to decide capital construction projects, and then "key project fund raising certificates" issued by the planning commission and construction units may be used in markets to raise funds. The source of funds would be state issuance to the People's Bank. The People's Bank would use sources of information in assessment organizations to set different interest rates according to ratings. Specific purpose loans would be issued by the People's Bank to specialized banks, and specialized banks could use them in subscriptions for "key project fund raising certificates." This kind of two tier regulation (the central bank forming one tier and specialized banks forming the other) would make units engaged in capital construction consider the interest burden and the time value of currency. Second, the offering of tenders for investment could be used to enter the market to raise long-term funds. Within the limits prescribed by currency policies for the current period announced by the Bank of China, units engaged in construction and government departments in charge could use mass media to announce the various targets and benefit expectations for construction, public tenders being opened following examination and concurrence by appraisal institutions. The foregoing two aspects show that the funding of capital construction can be shifted from the track of the supply system to the track of the market.

9432/12851

CSO: 4006/729

## ISSUANCE OF TREASURY BONDS REVIEWED

Beijing CAIZHENG [FINANCE] in Chinese No 4, 8 Apr 87 pp 13-14

[Article by Wang Yong [3769 0516]: "Review of China's Issuance of Treasury Bonds"]

[Text] China began to issue treasury bonds in 1981, and up to the end of last year has done so continuously six times. The original plan was to issue 28 billion yuan of treasury bonds during these 6 years, but what was actually achieved was the issue of 29.9 billion yuan, or 6.8 percent over the norm set. Although this amount of capital does not figure large in the budget revenue, it has had a significant effect in supporting the state's key construction projects and in promoting the continuous and steady development of the national economy.

In 1981, the plan for China to start issuing treasury bonds was proposed as a measure to stabilize the economy. In the spirit of the 3d Plenum of the 11th CPC Central Committee, the state, in 1979, raised the procurement prices for 18 agricultural and sideline products, among them grain, cotton, and oil, broadened the autonomy of enterprises, adjusted some salaries and wages, instituted a system of encouragements and rewards, gradually arranged for the employment of millions of unemployed youths, and also settled many accounts left over from the 10 years of turmoil. This resulted in a large deficit in the state's finances and in the increased issue of currency by the banks. Faced with this situation, the CPC Central Committee and the State Council decided to start in 1981 to issue 4 billion yuan of treasury bonds to be taken up by units. With support from all localities and departments, the issue actually yielded 4.8 billion yuan. All this capital was used to make up the 1980 deficit, and had also a certain effect in promoting and basically achieving a balance of revenue and expenditure and in the credit situation.

After 1982, the target for treasury bonds was expanded from merely units to individuals, and the use of treasury bonds was also changed in that they were now primarily used to support key construction projects. From that year on, the issue of treasury bonds became an important means of the state to accumulate social capital for the purpose of developing construction projects. The tasks set during these last few years have also been continuously exceeded, which had positive effects for the implementation of the policy of invigorating the domestic economy, opening up to the outside world, and

technological transformations, for adjusting the proportionate relations within the national economy, for the construction of a number of key projects in the field of energy resources, communications, etc., and to ensure the continued stable development of the national economy.

During the last few years, due to the reform of the economic system, the extra-budgetary funds freely at the disposal of enterprises and industrial units have rapidly increased, which has had a certain stimulating effect by invigorating the domestic economy. However, some of these extra-budgetary funds were handled in unsound ways. Many facilities were started up all over the country, which may be of some use for the locality in question, but which, from the standpoint of the country as a whole, were duplicative processing industries and not urgently needed unproductive undertakings. In the investment structure, this caused the problem that key projects did not receive key attention, and unimportant projects were not treated as unimportant, and that there was an inflation of unplanned investments in fixed assets, which further aggravated the shortages that had been very severe in the first place in such areas as energy, communications, and raw and semiprocessed materials. Accumulating extra-budgetary funds and some of the purchasing power in the hands of the masses by means of issuing treasury bonds for temporary transfer of these funds to the treasury, and increasing the state's investments in key construction projects, without increasing investments in fixed assets by society in general, and without increasing the amount of purchasing power in the society in general, helps the state effect microeconomic readjustments and exercise guidance as regards the scope of investments in fixed assets, the investment structure, and the direction of investments.

Motivating units and individuals during recent years to attach importance to the interests of the state, and to enthusiastically buy treasury bonds to support the state's construction projects, has had beneficial effects not only economically but also politically. In the course of issuing treasury bonds, government and party organizations at all levels, for the sake of China's development and motivated by patriotic sentiment, gave their support by locally launching education on the present situation and carrying out propaganda on a large scale to arouse the masses. Many comrades, conscious of the predominant importance of the interests of the state, used their savings of many years to buy treasury bonds. Some comrades bought bonds with money saved by living more frugally, or money they had intended for wedding expenses, to build houses, or to buy high-class consumer goods. Some elementary school children saved money penny by penny from their allowances to buy treasury bonds as expression of their fervent love of the motherland. In short, propaganda and education in connection with the issue of treasury bonds has had the effect of arousing patriotic enthusiasm among the masses and of fostering the laudable habits of diligence and frugality.

During the past 6 years, the issue of treasury bonds has been very successful. Every year the set tasks have been exceeded. This achievement is inseparably linked with the importance attached to the issue of treasury bonds by the leadership of all ranks, with the thorough and meticulous propaganda to arouse the masses, with the perfect organization for the issue of treasury bonds,



with the sound way subscription tasks were assigned, and with the cooperation and close coordination between the various departments.

1. Taken as an important affair by party and government leadership: At the start of issuing treasury bonds, the governments at all levels set up treasury bond sales committees (leading teams). These were composed of one important leading cadre of the people's government as chairman of the committee (or head of team), and leading comrades of financial units, banking units, economic commissions, the labor union, the Women's Federation, and the Communist Youth League. The party and government organizations at all levels placed the issue of treasury bonds on the order of the day, leading comrades personally spurred people on to action, studied at all times what problems showed up in the course of this work, and worked for the smooth progress of the bond issue operations.

2. Thorough and meticulous propaganda and education: At the time of selling treasury bonds, every locality launched propaganda on a grand scale, attuned to the present situation, to arouse the masses. In their propaganda, they linked the fact that subscription to treasury bonds will support the state's key construction projects in the endeavor to build a spiritual and material civilization, and thus carried out patriotic education. The methods of propaganda were flexible and of great variety, lively and vigorous, and presented in a way that the masses loved to hear and see, arousing the enthusiasm of the masses for building socialism, which made them very successful.

3. Detecting purchasing power, rational assignment of subscription tasks: For the effective accomplishment of a treasury bond issue, it is extremely important to gain information on the economic conditions of units and individuals and their purchasing power, and to realistically apportion the various subscription assignments. In the last few years, financial departments and treasury bond offices, together with other relevant departments, have made a survey and study on a large scale to arrive every year at a sensible basis for the allotment of assignments, and thus to implement party and state policy, as well as to ensure the smooth accomplishment of assigned tasks.

4. Setting up and perfecting an administrative organization for the sale of treasury bonds: In the last few years, with the powerful support of the party and state leadership at all levels, highly efficient treasury bond offices have been set up in all localities, staffed with the necessary number of full-time personnel, a fact which has been a significant factors in ensuring completion of the treasury bond sales tasks.

5. Cooperation and close coordination between all departments: The issue of treasury bonds involves a wide range of affairs and entails much arduous work. In the course of issuing treasury bonds, the party and government leadership at all levels calls together the comrades of the relevant departments, unifiedly arranges their deployment, clearly defines the division of labor, and coordinates their work, so that each department fully exercises its functions, with full responsibility accepted at each level. As a result, whatever is taken in hand is exhaustingly dealt with, so that the work of



issuing treasury bonds is done most thoroughly, in a down-to-earth manner, ending in a fast and excellent accomplishment of all tasks.

In the last few years, comrades engaged in the bond issue operations, in defiance of all hardship, went down to the villages and were able to accomplish much work there. This must have our full approval. But we must also realize that there are still certain aspects of the operations that need improvement: 1) Propaganda to arouse the masses has to be further strengthened. At present, be it in the cities or in the rural areas, the great significance of issuing treasury bonds has not yet become widely known, to the extent that the people would accept it as an honorable deed to buy treasury bonds. In some areas and units the purchase of treasury bonds has therefore not yet truly become a conscious act among the masses. 2) There is further need to attend to the implementation of policy and to improve work methods. A plain and crude approach will not please the masses and will also spoil the reputation of the treasury bonds. 3) Some places and departments still need strengthening of cooperation and coordination, making the effective accomplishment of the task of selling treasury bonds a common responsibility of all the various departments. 4) In some regions it is still necessary to prominently outline the main points in the work of selling treasury bonds in the rural areas. No treasury bonds must be assigned for purchase to people without purchasing power. In future, treasury bonds will become an important means of the state to raise funds for key construction. Their sale must be continued, and we must therefore conscientiously review past experiences, extol achievements, improve work, and become even more effective in accomplishing the task of issuing treasury bonds.

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CSO: 4005/570

## DEVELOPMENT AND ROLE OF BILL DISCOUNT MARKET

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 4, 4 Apr 87  
pp 33-35

[Article by Shanghai Municipal Branch, Chinese People's Bank: "Maintain Direction in Banking Reform. Strive To Establish and Develop Bill Discount Markets"]

[Text] Under influence of commodity economy models, distribution of bank credit funds has followed a supply system method for a long time with adoption of monopoly methods. A psychology of dependence has become very serious among enterprises, and a large block of working capital does not work, yet the amount rises year after year. Turnover of credit funds tends to be slow and benefits from the use of funds are too low, reflecting an extreme haziness in credit concepts and market concepts.

In order to maintain direction in banking reform, strengthen macroeconomic regulation and control capabilities, and enliven finance capital, we not only promoted lateral cash flow during 1986, organized promotion of the establishment of discount borrowing in the short term capital market for others in the banking business, and expanded finance capital channels, but also simultaneously proposed that all credit actions be treated as bills, specialized banks gradually expanding the honoring of bills and discounting work. We also decided that the Shanghai Municipal Branch of the People's Bank of China would begin rediscounting as of 1 April 1986, and would tighten up temporary extension of credit. For the past year, discounting and rediscounting throughout the city has developed fairly rapidly. All specialized banks handled the discounting of a cumulative 1,533,690,000 yuan in 1986, and the year-end balance was 606,510,000 yuan. The People's Bank handled 879 rediscounting transactions with a cumulative value of 536,620,000 yuan and had a year-end balance of 175,180,000 yuan for the preliminary formation of a citywide discount market. We adopted the following methods:

## Formulation of Rediscount Methods

1. Formulation of Rediscount Methods Giving Impetus to Specialized Banks' Expansion of the Honoring of Bills and Discounting

Discounting by Shanghai's specialized banks began in 1981. At first it was only experimental. Only later on, with the development of a market economy and steady expansion of commercial credit, did this take place throughout Shanghai, mostly involving commercial credit in the same city. It played a rather good role, earning the acceptance of the mass of entrepreneurial units. However, following state institution of macroeconomic controls over banking in 1985, money became tight and the scale of bank credit was brought under control. Working funds for discounting were lacking, and for a time a situation of contraction or even halting of this kind of work occurred.

We conducted a diligent banking survey in this regard, concluding that to place legitimate commercial credit on the bills track would be in keeping with the direction of banking reforms, and it would also help banks strengthen control over commercial credit. At the same time, we felt that development of this activity would have to be accompanied by the People's Bank's handling of rediscounting as a condition for providing guidance and support. This was the only way in which faster expansion could be achieved and a new level attained. It was in this spirit that we formulated rediscounting methods. "The Methods" provide explicit rules for the nature of rediscounting, targets and methods, purview, time limits, and recovery methods as well as for rediscount rate formulation and publishing methods. They particularly emphasize "credit policy principles" and "legal commodity transactions as a basis," being limited only to short-term cash flow needs that arise in the course of normal economic activity. No discounting or rediscounting may be done for bills that contravene credit policies or that have been signed and issued for non-commercial transactions. Rediscounting done by the People's Bank is, in essence, a temporary reallocation of funds for specialized banks effected through the exercise of control over bills. In order to bring the market mechanism to bear on the supply of and demand for funds, we have additionally tightened temporary credit. Except for special circumstances, no further temporary credit is provided to specialized banks and "self efforts to find a balance" are emphasized to induce them to use money markets and discount borrowing within the banking industry to solve their short-term revolving fund needs, making full use of idle savings in various financial organizations and of time differences, space differences, and place differences to effect allocation. Second is the financial channel of the People's Bank rediscounting to encourage specialized banks to expand their discounting activities and reduce the issuance of credit loans. In the control of rediscounting, a certain grace period should be allowed for bills due within the year and rediscount interest rates should also be somewhat lower. In accepting bills that extend into another year, not only should interest be added, but their numbers should be controlled to achieve perfection in every way and to effect their numbers should be controlled to achieve perfection in every way and to effect regulation and control smoothly. In addition, in order to support the interchange of bills among specialized banks and to meet the needs in setting up transfer discounting, the People's Bank has also taken corresponding flexibility measures, announcing that as long as regulations are complied with, concerns accepting transfer discounting may also apply for rediscounting and take full advantage of the regulatory role of the market. In this way sources of funds will gradually be expanded from a single

channel to many channels to yield rather marked results. During 1986, cumulative rediscounting amounted to approximately 34.99 percent of the total amount discounted. The year-end rediscount balance stood at approximately 28.88 percent of the year-end discount balance.

### 3. Application of Interest Rate Levers And Monthly Readjustment of Announced Rediscount Interest Rates

Rediscount interest rates are based mostly on national economic and financial policies and set interest rate levels, taken together with market supply and downward fluctuations in interest rates. Each month the Shanghai Municipal People's Bank makes a ruling and announces the rediscount rate for the current month on the fifth day of each month. Fluctuations in the discount rate used by specialized banks may be controlled accordingly. Because of the nature of short term capital turnover and the need for flexibility in allocations, we adopted a "frequency based on amount of time." Currently, rediscount rates are for 1 month, 3 months, and 6 months. In principle, the shorter the period of time, the lower the rediscount rate; The longer the period of time, the higher the rediscount rate. Readjustment of the rediscount rate has traditionally been one of the three major regulatory methods used by the central bank. Since the initiation of rediscounting, the monthly announcement of the rediscount rate by the Shanghai Municipal People's Bank has, in fact, both directly and indirectly affected the specialized banks' discount rates and interest rates for discounted loans among various financial institutions in the banking business, gradually giving expression to the role of a "standard interest rate" for the city's short-term money market and development in the direction of a benign cycle under indirect control.

### 4. Setting of the Scope of Priority Handled Bills To Guide the Flow of Funds in a Rational Direction

In the rediscounting process, we checked the purchases of bills that specialized banks had already discounted but that had not yet become due, and we gained knowledge about pertinent market economic activities and information from commodity trading. After making a comprehensive analysis of the data, simultaneous with the monthly announcement of the rediscount rate, we suggested the scope of "priority handling" of bills, and what should be openly supported and limited to effect indirect control over the way in which specialized banks use discount funds, and to guide the direction of flow of money in society in order to advance the formation of a rational national economic industrial structure and product structure. In September 1986, for example, our branch bank suggested that "priority handling should be given when short-term cash flow funds are needed, as a result of problems in procurement and marketing links, for products that continue to sell well in markets, for products exported to earn foreign exchange, and for needed raw and processed materials, as well as for the straightening out of loans in arrears." In December, it again proposed "that the way in which rediscount funds are to be used is, first, to insure fulfillment of quotas within the year; second, to provide

appropriate support for sensible needs for materials to be made ready for production during the first quarter of the following year; third, to help commercial units who have to make advance arrangements for certain goods sold in markets for New Year's Day and for the lunar new year; and fourth, for time differences having to do with funds that are attributable to seasonal factors, clearing up old debts and promoting the sale, or the consignment to an agent for sale, of goods that have accumulated in inventory." These measures have played a certain positive role in guiding the use of funds in rational ways.

#### Commensurate Results Received

Since the initiation of the honoring of bills and discounting, the following results have been obtained:

1. A change in outlook, with a change in the "same big pot" mentality with regard to the supply system. Introduction of the market mechanism has strengthened market and information concepts, brought about a change in the undiversified method of supplying funds by plan, has opened new channels for cash flow, has made short-term cash flow more flexible and diverse, and has helped regulate social supply and demand. In addition, for a long time the state has practiced a supply system in the distribution of loan funds, using methods whereby it was totally responsible for providing funds. As a result, both specialized banks and enterprises became accustomed to looking to the state for money. Ever since the People's Bank made it clear that it would not undertake to supply all funds, both specialized banks and enterprises have taken on more of the responsibility. They have overcome their psychology of dependence, thereby giving impetus to enterprises in improving administration and management, and to the development of lateral cash flow for a change in the "same big pot" situation of the former funds supply system.

2. It has increased the use of bills, the ability to control the uses to which funds are put, and the effectiveness by which funds are used. With the steady development of the commodity economy, the development of commercial practices such as payment in installments and deferred payments became inevitable. Formerly a "charge method" was frequently used whereby selling units could not be sure when they would receive payment. But with the initiation of the acceptance of bills and discounting, the use of bills has increased and one may be assured of receiving payment. This has also strengthened credit concepts among paying units for rational planning of funds to be used for payment. After a unit receives a bill, a bank will discount it, and specialized banks also forward it to the People's Bank requesting rediscounting, which makes for a lively flow of funds. Bank discounting and rediscounting both helps reinforce credit controls and can provide impetus at the same time to enterprises actively handling surplus goods that have accumulated in inventory, which puts both goods and funds to use and increases the effective use of funds.

3. Impetus to production and circulation of goods, impetus to lateral cash flow, impetus to a business psychology of self-determination, and to the macroeconomic regulation and control capabilities of the People's Bank. First of all, there are conflicts between production and marketing, between supply and demand, and between industry and commerce for quite a few commodities in today's markets. The honoring of bills, discounting, and rediscounting are able to ameliorate conflicts between industry and commerce, and between banks and enterprises to find a suitable way in which to arrange for the production and supply of seasonal goods to satisfy market demand. Second, in the course of the allocation and transfer of materials and the exchange of goods, when disjointedness between goods and currency, and imbalances in the supply of funds between regions and enterprises occur, the honoring, discounting, and rediscounting of bills can link together both parties to transactions in final settlements and loans to promote a lateral cash flow. Third, once commercial credit was made a part of the bills process, enterprises had to establish a market concept, understand balance between production and marketing, and strengthen arrangements for funds management, which can further impel enterprises to increase their business psychology of self-determination. The same is true for specialized banks. Fourth, by using the regulatory device of initiating rediscounting and being able to control the rediscount rate at will, the People's Bank guides the direction of flow of social funds, regulates social demand, and advances its macroeconomic regulation and control capabilities with regard to money.

#### Several Problems To Be Given Attention

As a result of 1 year of practice in rediscounting, we believe that the following several problems should be given attention in actual control.

1. Orientation Toward Market Problems. A psychology of dependence exists at the present time among banks or enterprises with regard to their needs for funds. In addition to stating explicitly that it positively will not be responsible for providing funds, the People's Bank must also intensify publicity and take actions to force an orientation toward markets as the only way in which to promote development of a planned commodity economy. Otherwise, a money market cannot take shape in the market economy, and market concepts cannot be established, with the result that managerial thinking, the level of administration, and economic results in the course of the four modernizations will not be able to rise very high.

2. Adherence to Legal Exchanges of Commodities as a Basis For Guarding Against the Problem of a Needless Expansion of Credit

Banks should carefully examine requests to honor and discount bills. In addition to investigating the credit of requesting units (which is to be mostly the responsibility of specialized banks), attention should be given to finding out whether merchandise transactions are legal, whether or not there is any business agreement, whether goods or materials are usable and marketable, and make sure to guard against bills for non-merchandise

transactions from reaching the market. Use of commercial bills to promote the sale of slow selling merchandise only to continue large scale production of them in the pursuit of false profits are to be guarded against.

### 3. Attention to Measures For Coping With New Situations and New Problems

Close attention must be given the matter of banks supplying funds more than once when discounting and rediscounting; otherwise there will be an expansion of credit that covers up problems with the internal administration of a company. For example, when we are managing specialized banks' rediscounting, it may be discovered that bills of exchange have been honored for sales at different levels for the same imported materials, that materials units have discounted them only to have industrial supply and marketing companies go to a different bank where it maintains a credit account to conduct discounting. Duplicate discounting may also occur among grassroots level plants when materials change hands, banks funds being acquired illegally. In regard to such situations, we have come up with the following: "It is necessary to understand the entire process in the allocation of goods and materials. Under most circumstances, banks may not discount bills signed by intermediary transfer links. There has to be a prompt settling of accounts, and bills signed by the final link may be taken by payee units to the bank for honoring and discounting. Under special circumstances, one can only proceed from realities, only one party can take care of matters. Several parties cannot go to the bank to request discounting. This is the only way in which to effectively guard against situations occurring in which banks provide funds more than once." With regard to other problems in discounting and rediscounting, such as how to understand regular commercial practice and whether it is necessary to adhere to final settlement principles of money and goods tallying, we feel that whenever there is need for a prompt settlement of accounts for merchandise transactions, then goods and money must tally with each other; there can be no arbitrary expansion of commercial credit, much less can discounting be used for unauthorized expansion of credit sales. In short, for some basic concepts, when these kinds of work are being promoted, one should be sure to define limits and avoid blurring distinctions.

9432/12851

CSO: 4006/729



## GENERAL INDUSTRIAL SURVEY TO PRODUCE RESULTS IN 1987

Beijing TONGJI [STATISTICS] in Chinese 17 Mar 87 pp 17, 16

[Unattributed article: "Comrade Zhang Jinfu [1728 0513 1133] Points Out: 1987 Will be Year of Crucial Importance Showing Results From the General Industrial Survey"]

[Text] Comrade Zhang Jinfu, head of the State Council's leading team for the nationwide general industrial survey and member of the CPC Central Committee, attended the telephone conference on the performance of the nationwide general industrial survey, held 18 December 1986, and gave an important talk on the achievements made so far in the general industrial survey and on the tasks of the future.

Zhang Jinfu said that 360,000 enterprises had been directly surveyed this time. Under strict three-level quality control, the error rate for data on the survey forms was generally less than the norm of 20 per 1,000 fixed by the state as not to be exceeded. The actual average error rate was only 2.78 per 1,000, which is truly a rare achievement.

He said the method employed in the present general industrial survey was one of simultaneously investigating, summing up, adjusting, and instituting analytical studies, in order to have survey data available for use as early as possible and to provide economic information in service to all levels of party and state leadership. According to statistics for the end of October 1986, over 170,000 analysis data were compiled in the nationwide industrial survey, of which over 150,000 were written up by enterprises and over 10,000 by provinces, prefectures, municipalities, and counties. Over 320,000 suggestions and proposals were submitted, of which almost 60,000 have been adopted by enterprises and relevant departments.

On reviewing the work mentioned in the preceding paragraph, Zhang Jinfu pointed out that three kinds of experiences have been gained in the present industrial survey: One, the importance attributed to the work by the leadership at all levels, implementation of the responsibility system, responsibilities being borne level by level, also well-conceived planning and meticulous organization, have contributed to the success in mobilizing the resources of all sectors. Two, guided by observance of the principle of "quality above all else," fullest and effective preparatory work in advance of

the survey, with strict, comprehensive quality control, determined the high quality of data control methods and of the control procedure throughout the entire project. Having the survey offices at all levels firmly holding their ground, level by level, and by strict examination and verification, the high quality of the data became ensured. Three, prompt start of analytical studies enabled abundant survey data to be promptly placed at the disposal of users.

When touching on the tasks of the new year, Zhang Jinfu emphasized that 1987 will be a year of crucial importance, as it will be in this year that the results of the general industrial survey will become evident. The main tasks of this year will be: first, paying close attention to complete the computation of all computer data; second, comprehensive adjustment, compilation, and publication of the various survey data, and also publishing a general survey gazette; third, intensified analytical study of the survey material; the work of analyzing the enterprises shall be further intensified, and particular effort shall be devoted to an intensified analytical study of the macroeconomic aspects; fourth, evaluating and selecting advanced units and individuals to be commended for their survey work.

There are mainly two indicators to assess whether the present survey has been successful: first, the degree of accuracy of the survey data; second, the thoroughness of analytical studies of survey material. The two are closely linked, accuracy of the data is the foundation without which it would be fruitless to do analytical studies. Only by the effective performance of both these aspects of the survey work can the general survey task be accomplished.

The point of emphasis in the analytical studies during 1987 shall be shifted from analyzing enterprises to analyzing districts, departments, and the country as a whole. Each province, autonomous region, directly administered municipality, and the relevant departments of the State Council shall take the lead in doing an effective job that will produce good results. Leading comrades at all levels of the survey organization must pay special attention to three things: 1) Present good points of inquiry: The topics for study shall be selected with very specific objectives in view as they pertain to such important questions as the reform of the economic system, the drawing up of plans, implementing the plan for the trade in question, and technological transformation, and should be linked with the actual conditions of the region and trade in question. 2) Organize well the available means: In this respect it would not do to merely rely on the strength of the survey offices at the various levels, but means should also be found among the departments with overall economic interests and economic research organizations; effective work will only be possible through division of labor and cooperation. 3) For major analytical work, arrangements shall be made to enlist the help of specialists for supportive work, to support the reliability of the data, of the examples quoted, and the accuracy of the problems and the feasibility of suggestions and proposals, always striving to achieve genuine results.

The objective of the present general industrial survey is: First, to be of service to the leadership in their decision making; second, to be of service to the several hundred thousand enterprises; third, to be of service to the broad masses; fourth, to be of service to research and education. There is an additional important task, namely to be of service in the implementation of

the open door and in the development of Sino-foreign economic cooperation. If we want to attract more foreign capital to develop our socialist construction, we must provide more information to the outside world.

We shall begin in 1987 to publish the results of the general industrial survey, and certain important indices will be published for information abroad. At the same time, we shall publish a large amount of survey material, with the exception of items which the State Council will designate as classified. Some of this material will be published in English.

Publication of industrial data in such complete and systematic form is unprecedented in China's history. We must pay special attention to do an effective job of publishing and distributing this industrial survey material; this will be the final achievement. Some of the more valuable analytical reports shall also be selected for publication, as long as there is no need for their secrecy.

Finally, he expressed the hope that even more outstanding work of various kinds will be done in the new year, more outstanding achievements will be accomplished, that it will be possible to achieve even higher levels of accomplishment in the general industrial survey work, and that excellent results of even higher quality will be achieved.

During the telephone conference, the leading cadres from nine districts and departments, namely of Liaoning Province, Hunan Province, the Ministry of Railways, Gansu Province, Dalian City, the Ministry of Astronautics, Shanghai Municipality, the Ministry of Light Industry, and of the All-China Nonferrous Metal Industry Corp, gave reports on industrial survey work initiated in their districts or departments and spoke on the future dispositions for this work.

9808

CSO: 4006/561

## BLUEPRINT FOR COUNTRY'S IRON, STEEL INDUSTRY

Beijing LIAOWANG [OUTLOOK] in Chinese 23 Mar 87 p 4

[Article by Xiao Yan [2556 1484]: "Great Blueprint for China's Iron and Steel Industry"]

[Text] On his inspection tour of the Xiangtan Iron and Steel Mill, Vice Premier Li Peng said steel occupies a special position in the four modernizations. From the standpoint of the Seventh 5-Year Plan and of long-range planning, it is necessary to develop the iron and steel industry most energetically. China's iron and steel industry will indeed see great developments.

We understand, the state has already drawn up a great developmental blueprint: The aim is to attain an output of over 60 million tons of steel by 1990, and of 80 million tons by 1995, which is more than originally scheduled for the end of this century. Great efforts will be made simultaneously to increase the types of steel products and products that command ready sales in the market.

Since the establishment of new China, development of the iron and steel industry, one of the basic industries, has always had priority. By the early 1980's, China had already built up a huge production system with an annual overall steelmaking capacity of 40 million tons, combining large, medium, and small enterprises, distributed appropriately over the whole country. At the end of the Sixth 5-Year Plan, in 1985, steel output reached 46 million tons, and production of the iron and steel industry in 1986 was a record for the last few years. According to figures provided by the Ministry of Metallurgical Industry, the annual output of steel came to almost 52 million tons, an increase of 10.9 percent over the preceding year; production of steel products came to over 40 million tons, or 10.6 percent over the preceding year. China now has 56 enterprises that each produce over 100,000 tons a year, and 14 large-scale enterprises that each produce over 1 million tons. Several of these, among them the Baoshan Iron and Steel Complex, have technical equipment that is up to world advanced levels.

Although China is already in fourth place among the world's steel producers, following the Soviet Union, Japan, and the United States, its output is small on a per capita basis. In 1984, the per capita rate of steel output in

Japan was 1 ton, in the Soviet Union from 0.7 to 0.8 tons, in the United States somewhat over 0.4 tons, but in China last year the per capita rate of steel output was only somewhat over 50 kg, or about one-twentieth of that of Japan. Experts forecast that with China's intention of attaining a state of general well-being by the end of the century, large developments will take place in all of its trades and industries, particularly among the large consumers of steel products, such as the energy, communications, and machine-building industries. This means that nothing less than an annual output of 100 million tons will be found adequate.

Viewed again from the standpoint of steel types and standards of steel products, although China can now produce over 1,000 types of steel and rolled steel to somewhat over 20,000 standards, this is by far insufficient to satisfy the needs of technological transformation and updating of products of its modernization projects. For instance, China cannot yet produce some of the new types of steel products required for high-speed, heavy-load railroads, increased coal mining, off-shore oil exploitation, and large engineering machinery. Some products can be produced, but can again not be provided in complete sets of equipment. There is no other way but to import large amounts of steel products. Therefore, whatever the demands are as to quantity, quality, types of material, or standards, a large development of the iron and steel industry is a necessity.

How can realization of the above-stated targets be ensured? As Vice Premier Li Peng again pointed out when he inspected Xiangtan: Development of the iron and steel industry must go the way of exploiting untapped potential, renovation, production of complete sets of equipment, and expansion. In over 30 years of construction, China has already acquired an iron and steel production capacity of considerable proportions. The question is now that many of its currently available enterprises cannot produce complete sets of equipment, technological and managerial levels are low, and many items of equipment cannot be operated to full effect. The weak link in China's iron and steel industry is precisely its huge untapped potential. During the Sixth 5-Year Plan, China merely relied on renovation, combining facilities for the manufacture of complete sets of equipment, and expansion of old plants, and in this manner raised output by almost 10 million tons. It was a shortcut which required little investment and yielded quick results.

China's iron and steel industry is facing the following tasks: Increasing output, while also improving quality and increasing product types; energetic development, while also being restricted by insufficient capital; primary reliance on old enterprises, while also in need of employing advanced technologies and methods of management. It is therefore imperative to absorb foreign capital and to import foreign advanced technologies and management methods. Since the inception of the PRC, China has imported much iron and steel manufacturing technology and equipment. In the 1950's, China imported whole plants from the Soviet Union and other countries, laying a significant foundation for the formation of an independent and comprehensive iron and steel production system in China. However, in the course of time, many items of equipment have become obsolete and outdated and in urgent need of renovation and updating. Getting into the 1970's, China again imported from Japan and the FRG whole plants for hot strip rolling of 1.70-meter band steel,

steel cold rolling, cold rolling of silicon steel plates, and for continuous ingot casting. Since the 3d Plenum of the 11th CPC Central Committee, and with the opening up of the country to the outside world, imports were speeded up on an even larger scale. The scope of imports was large, and technologies brought in were of an advanced nature. For instance, the Baoshan Iron and Steel Complex in its first construction stage is now in size and technological advancement the largest and most advanced in the country. Our policy was to import advanced hardware, but to give simultaneous attention to the importation of the related software, and to import technologies that would enhance manufacture, production, and management. We also followed the principle of selective importation; any country was welcome as supplier, whether the Soviet Union and Eastern Europe or the United States, Western Europe, Japan, or any other country or territory, as long as trade was on the basis of equality, mutual benefit, and strict fulfillment of contracts.

To develop China's iron and steel industry, cooperation was instituted with foreign parties in a variety of ways, such as absorbing foreign loans, operating plants and mines as joint ventures, and plans are now under study to invest in and jointly operate certain foreign steel mills that are about to be shut down, to have their output shipped to China. Compensation trade and leasing are either already in operation or will be instituted as important patterns of the future.

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CSO: 4006/561

## ADVANTAGES OF DIRECT FOREIGN INVESTMENT

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 87 pp 9-11

[Article by Wang Yibing [3769 0001 0365], of the Changde Branch, General Administration of Exchange Control: "On the Advantages of Direct Foreign Investment"]

[Text] Since China began implementing its open door policy, there have been some breakthroughs as well as initial results in making use of foreign investment. Over the past 2 years, especially, there has been considerable progress in carrying out policies with respect to partners in joint ventures, the scale and scope of investment, the value of contracts signed, the actual amounts of equity investments, and other aspects. As the investment climate improves, encouragement of direct foreign investment becomes a long-term strategic goal. Following is a discussion of the advantages of direct foreign investment.

I. It Is Better To Attract Direct Investment Than Indirect Investment

China now makes use of two general categories of foreign investment. One is direct, which mainly involves the establishment of wholly foreign-owned and equity joint ventures; the other is indirect, which is raising capital by borrowing and incurring debt through a variety of channels. Over the past 2 years, it has mostly used the latter category, but I consider that the disadvantages far outweigh the advantages. First, are the tremendous risks to domestic enterprises. Loan borrowing offsets inadequate national modernization funds, but does not eliminate backward management and poor economic results, problems that are now plaguing most domestic enterprises. Some remain inefficient despite having money; they have not been good enough at improving management and for a time cannot turn any profit, and must assume all commercial risks themselves. Second, is the burden on state finance and the difficulty in balancing foreign exchange. Because of poor management and inexperience in the details of handling external loans, China would easily overextend itself by borrowing too much, and fall into a crisis servicing the debt. This would only lead to 1) a heavy financial burden, as it becomes a debtor nation paying annual installments on principal and interest, and 2) the foreign debt devouring most or all of the foreign exchange earned through exports, creating imbalances in foreign exchange and in international payments. Third, is the lack of coordination in importing, making it difficult



to fully reap the benefits. Units woo foreign investments by themselves, without linking up imports of advanced equipment and technology, making it hard, over the short term, to overcome the current backward technology, antiquated equipment, and poorly developed social productivity syndrome. And viewed objectively, developing the economy by external borrowing also depends on how much domestic enterprises and localities can absorb. As it is now, the capacities of some localities and units are limited; in addition, the supply of necessary RMB and the availability of technical equipment cannot keep pace, which may result in losses.

In comparison, the advantages of direct foreign investment are:

1. It can reduce risk and improve results. In terms of wholly-owned foreign firms, risk would be the concern of the foreign party, not the Chinese. In addition, as far as repayment is concerned, there is a close relationship between the ability of the revenue from direct investment to cover the costs and the ability of the host country to pay for them. In other words, profits would be small in a slow-growth economy. With direct foreign investment, therefore, there would be no debt-service crisis. Sino-foreign joint ventures would give priority to improving economic results, both for the common good and for mutual interests. And because risks, profits, and losses are shared, these enterprises would naturally strive to import advanced technology and scientific management methods.
2. It can be linked up with the importation of technology, to help improve technical productivity and management levels. It is easy to see how direct foreign investment makes it possible to take advantage of not only foreign capital but, even more important, the equipment, management expertise, experience, and other economic information that comes along with it. For these reasons, the transfer of technology and management expertise is even more beneficial than the category of investment itself.
3. It can gradually improve the export commodity structure and heighten competitiveness. The economy is not making headway now mainly because there is no progress in industrial production; products are poorly made and cannot compete in international markets. After attracting foreign investment, however, major emphasis is to be development of export and advanced technology enterprises, to promote rapid development of the manufacturing industry, electrical machinery export industry, and state-of-the-art technology industries, providing impetus for change in the export commodity structure to bolster foreign exchange earning power.
4. It is easy to manage and control. Foreigners investing in and setting up factories or going into business in China must adhere to relevant Chinese rules and regulations. This makes it easy to guide the direction and improve the structure of investments. In other words, the initiative to manage and control is always in China's hands. But this is not the case when it borrows funds abroad, where it is subject to the vagaries of financial and monetary policy changes of the creditor nation, and the fluctuations of international money markets. Put another way, this means the greater the proportion of foreign investment a country has as a debtor nation, the less uncontrollable external pounding it is subjected to.

In sum, from the need for economic development and the long-term view, it is necessary to change the way China takes advantage of foreign capital so that direct foreign investment instead plays a major role.

## II. Major Reasons That Discourage Direct Investments

In 1985, China attracted and made use of more than \$10 billion in foreign loans, of which direct investment was only \$5 billion or so. The reasons for this are fairly complicated, but analyzed from the reality of China's situation, I feel the main ones are:

1. A poor investment climate. Generally, this is due to quite stringent administrative controls, tax collection policies, and foreign exchange controls; inefficiency of administration organs; and lagging supplies of needed elements in production. Enterprises involving foreign investment, especially, do not have enough say in managerial decisions, hiring and firing of personnel, raising of capital, commodity flow and other aspects, creating the feeling that it is tough to do business and turn a profit.

2. Greater risks involved. Foreigners often worry about shifting policies, stringent management, and difficulty in obtaining safeguards for personal interests. In addition, many have made it known that it is hard to obtain data necessary to prepare feasibility studies. Risk estimates cannot be thorough and accurate, because there is no information on such things as raw materials and costs. Investors feel there is no profit, are unwilling to accept the risks involved, and may trim investment or pull out entirely.

3. The impact of currency and exchange rates. Most foreigners investing directly request that repatriation of shared profits be in foreign currency. This presents a thorny problem on how to balance the enterprise's foreign exchange earnings, especially at the outset, when its products have not yet found a niche in the marketplace and lack foreign exchange earning power, because profits can only be calculated and distributed in local currency {RMB}. Fluctuations in the exchange rates have also had an adverse impact. Not long ago, for example, RMB was significantly devalued, and enterprises involving foreign investment invested enterprises took a beating. Imported technology, equipment, and raw materials became very expensive, production costs soared, and profits shrank. And for the Chinese investor, the amount of RMB required for investment increased correspondingly. The problem of a stepped up demand for limited capital has in turn had an impact on normal production and sales.

4. The high cost of attracting direct investment. This mainly involves open domestic markets paying opportunity costs for the sales of similar items, and commissions to foreign investors for importing and purchasing equipment, technology, and raw materials, and from sales of products as an agent. The cost of indirect investment, on the other hand, includes interest payments, expenses for specialists involved in reviewing the loan, and fixed processing fees for the lender. In comparison, the cost of direct investment is higher. For these reasons and out of consideration for economizing on the expense of

using foreign capital, the tendency in the previous stage was to lean in the direction of indirect investments rather than direct investments.

### III. Measures To Encourage Direct Foreign Investment

We feel that the key to a solution for problems stated above is improvement of the investment climate. Recently, the State Council established a leadership committee on foreign investment and promulgated regulations on encouraging foreign investment, laying the foundation for a better investment environment.

To improve the environment for investments, vigorous measures should be adopted as follows:

1. Stabilize policies. Under the basic open door policy, this means absolutely guaranteeing lasting stability for preferential policies to attract foreign investment, and carrying them through. Indisputably, China's political climate is stable, but its policies often shift. To change this: 1) pay attention to perfecting and instituting economic laws, rules and regulations to protect legitimate profits of a foreign investor; 2) each area or unit in charge must further unify ideological understanding, and conscientiously handle problems which can be settled within the scope of its functions and powers to improve efficiency. It is forbidden administer affairs without coordination, and irresponsibly suggest that work, etc., be apportioned or that fees be collected from "the three kinds of partially or wholly foreign-owned enterprises"; instead, take positive steps to allay fears foreigners may have about investing; 3) perfect organizations involved, strengthen research and management of direct investment, sum up experiences in a timely fashion, and institute measures on improvement.

2. Consolidate foundations. The wholly-owned and joint-venture enterprises built up over the past few years have taken shape. As of the end of 1985, there were 6,120 of these "three kinds of partially or wholly foreign-owned enterprises" in China. Production and sales are gradually becoming normal, yet a host of problems remain. We feel there are several ways to support them and consolidate their foundation. First, urge them to balance foreign exchange earnings. Right now, no more than half of them can do this. On the premise of continuing to encourage them to expand exports, we should suitably relax foreign exchange controls, by: 1) permitting enterprises with foreign investment to adjust their foreign exchange holdings, to the extent allowed by foreign exchange units, and 2) allowing the "enterprises involving foreign investment" to achieve a foreign exchange by adopting compensatory measures such as by "import substitution," "compensation trade," and earn foreign exchange by purchasing for export domestic market products permitted by the state with RMB from shared profits. Next, supply the necessary capital. Banks must adopt special preferential policies for fiduciary loans, charging interest on a case-by-case basis. When lending RMB, permit on a trial basis cash remittances, notes, marketable securities, and other loan securing on assets abroad. And finally, perfect external conditions for established enterprises and make it a priority to ensure supplies of raw materials and the import and export of related materials.

3. Offer opportunities for success, to enhance our appeal. This boils down to: 1) reducing expenses for labor and on land use, lowering and exempting taxes, shaving production costs and increasing profits on the basis of equality and mutual interests; 2) following standard international practice permitting foreigners to enjoy generally the same investment conditions they would find abroad thus reducing commercial and political risks, fostering the feeling that there really are profits to be made; 3) drawing on relevant laws, rules and regulations to adequately safeguard foreigners' autonomy over production management, so they can play to their strengths within the limits of Chinese law and contract stipulations to revivify enterprises and improve profit pictures.

4. Encourage reinvestment. Revenue earned from direct investments is ordinarily higher than the interest on loans, to compensate for risk. If we encourage foreigners to reinvest profits gained from their enterprises, it could reduce the cost in foreign exchange of absorbing direct investment. To achieve this, first gradually expand domestic market capacity to develop new areas of cooperation. Next, provide reinvestors with additional preferential measures and appropriately reduce taxes on the basis of the overall volume of investment, duration of the investment, and line of business. And last, upon approval from units concerned, permit the use of RMB for increasing capitalization, but afford the same status as given investors using foreign exchange.

#### IV. Overcoming the Disadvantages of Direct Investment

The disadvantages of direct investment are manifest mainly in four ways:

1. A surplus value higher than interest must be paid out when sharing profits. This is to say that China's potential reimbursement to foreign investors is enormous.

2. The development of national industries may suffer because autonomy over management is partially relinquished; if caution is not exercised, some key industries may fall into the hands of foreigners.

3. Enterprises involving foreign investment will fight for a share of China's domestic market and will take advantage of their upper hand abroad to beat off Chinese exports and dull competitiveness of similar products in China.

4. Some joint ventures have borrowed from the bank in the name of the foreign investor's enterprise, yet have had the Chinese partner put up all indemnity guarantees, placing the final risk of debt squarely on the shoulders of the Chinese partner. This has created the problem of foreign investors taking advantage of Chinese capital.

To counter these problems, some of which have occurred and some which may occur, we suggest the following remedies:

First, improve economic results, giving priority to development of productivity. Currently, the major emphasis in attracting foreign investment is the long-term view, to see whether such investments can bolster economic

development. Encouragement should follow these principles: 1) import advanced technology and equipment to fill gaps throughout the entire production system and promote rapid development of productivity; 2) bring in scientific management which can be reasonably deployed to fully exploit resources; 3) attract investments which can expand export earning capabilities. If this can be done, it would be worth it even if the foreign investors receive higher profits.

Next, adopt lasting, stable measures which can be relaxed in stages as needed. After the investment climate is improved, we must not rush in and blindly take advantage of foreign investment, or disregard domestic capacities in finance and materials. Instead, there must be lasting, stable measures, gradually expanded according to national conditions. To wit: 1) Use actual domestic economic capacities as a lever to readjust the investment structure and to guide the direction of foreign investments. Take advantage of foreign investment, but at the same time place limits on it, and relax policies by stages in tandem with the pace of growth and development requirements. 2) Strengthen the legal system to deal properly with those investments which do not help international balance of payments or which have a negative or destructive impact on the development of public enterprises and major industries. 3) Vigorously foster domestic enterprises and preserve traditional nationality industries to enhance their competitiveness.

Third, make sure that there are exports as well as imports. An economy opened up to the outside cannot merely import. Because of expanded markets for investments worldwide, China can use its own technology to invest abroad and export labor. In fact, today it has engineering and labor service contracts with scores of countries and areas, and has up to 100 equity and contractual joint ventures abroad. We should encourage import of foreign investment but at the same time create conditions necessary to foster investment abroad by giving our own investors preferential treatment and support so they can reap more profits to compensate for economic losses at home.

Fourth, turn contradictions and competition among monopoly capital groups to our advantage, attract and absorb capital or investments from a variety of sources, strive for an overall balance, and avoid control by monopoly capital groups from one country or mere handful of countries. At the same time, based on equality and mutual interests, we must struggle in justice and integrity to preserve and protect the overall interests of China and its nationalities.

Finally, improve the system of guarantees to foreign investors. We must adhere to principles in the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment," to establish different areas of coverage to different perspectives. In general, the maximum amount involved should be in proportion to the amount of Chinese capital invested, with the foreign partner providing the other surety deposit or appropriate counterguaranty. In general, surety should not be considered for wholly foreign-owned enterprises or individual foreigners engaged in business, unless the party involved can present sufficient debt-free assets or valid notes as collateral. This will prevent foreign investors from continuing to take advantage of Chinese capital.

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CSO: 4006/598

## OVERVIEW OF TIANJIN'S FOREIGN ECONOMIC RELATIONS, TRADE

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 11, 23 Mar 87  
pp 22-23

[Article by Gu Peichuan [7357 1014 1557]: "This Year Tianjin Will Be Even Better, an Overview of Tianjin's Foreign Trade Economy"]

[Text] In the past year, Tianjin's foreign trade, the utilization of foreign capital and the construction of economic and technological development zones all made significant progress. In the process of implementing the main aspects of the open door policy, Tianjin is moving forward at a new pace. This year there will be new breakthroughs and even greater deeds in Tianjin's implementation of the open door policy.

## Foreign Business Transactions Reach All-Time High Levels

Since the fourth quarter of 1985, the international market price of oil has fallen dramatically, the Japanese yen and the German mark have risen and the U.S. dollar has declined in value. Moreover, the exchange value of the RMB has been adjusted, which is beneficial to the expansion of China's exports. Tianjin has taken advantage of these good times and has actively expanded sales. Last year foreign business transactions increased 40.1 percent over 1985, establishing an all-time high. In 1986, exports leaving through the Tianjin port sharply reversed an annually declining trend as 112.6 percent of the state planned exports for the Tianjin port were in fact fulfilled. This was an increase of \$104 million over 1985, an increase higher than the national average.

In the past, the Tianjin port relied on interior areas as suppliers of export commodities. Accompanying the steady flowering of self-managed exportation in the interior regions, and especially since the allocation and transfer plan was canceled, commodity sources from external areas have been significantly reduced. Last year, based on the policies of "extolling the long-term over the short term, stylistic diversification, mutual favors, mutual benefits, and shared growth." Tianjin went through a variety of channels to actively



develop lateral economic integration with a range of areas and especially with the interior; Tianjin has already established various kinds of lateral economic integration with foreign trade and production enterprises of more than 20 provincial cities. This enabled the volume of Tianjin's foreign trade purchases in 1986 to increase by 25.4 percent over 1985. This was higher than the rate of growth for Tianjin's GVIAO and surpassed all-time records.

#### Investment From Overseas Continues To Grow

While foreign business complains of China's investment climate, last year the attraction of foreign investment continued to grow. In 1986, there were 49 new and old Sino-foreign joint investment enterprise projects. Although this was a numerical reduction from 1985, the total value of investment reached \$180 million, an increase of 23.4 percent over 1985. As part of this, foreign commercial investment increased 72 percent. Not only did investment increase, but the quality of the projects rose. Among the 49 projects, 43 were production-related projects and 33 of those were for export production. This reveals that investment projects in Tianjin are tending toward expansion mainly in production and export.

The joint capital enterprises that have already begun business operations have produced excellent economic and social benefits and the overall balance of foreign exchange receipts and expenditures has shown a surplus. According to statistics from a financial bulletin at the end of last year, the total sales figures for the 71 joint capital enterprises that are in operation was 319 million yuan and profits were 61.67 million yuan; the average profit margin on sales was 19.3 percent and there were 10 enterprises whose profits surpassed or approached 1 million yuan. The balance of foreign exchange receipts and expenditures has been favorable; at the end of the period \$11.43 million in foreign exchange was held in reserve. Due to the application of advanced technologies and scientific management methods, economic benefits for industrial production enterprises has been even more evident. In the Tianjin area there were 26 industrial enterprises whose average profit margin on sales reached 25.3 percent; the rate of return on investment was 32.4 percent.

An important reason that there has been a steady pace in the growth of foreign investment in Tianjin is that most joint investment enterprises in operation are earning money. At the same time, the investment climate has steadily improved and productivity has gradually risen. Last year from 28 November to 3 December, economic advisors for the Chinese Government concerned with coastal economic development toured and advised. Singapore's Wu Qingrui [0702 1987 3843] was brought in for 6 days to observe Tianjin's foreign commercial investment situation. When discussing what he saw and felt during this investigation, Wu Qingrui said that his investigation amply proved the correctness of China's open door policy; he expressed full confidence in this. He



continued by saying that he thought the following held significance: the relatively small bureaucracy in Tianjin: a firm grasp on the foreign exchange balance as a central link; and the selection of appropriate types of joint investment and a rational direction in investment. Within joint investment enterprises, employees on both sides are cooperating very well. These conditions are excellent for investment earnings.

#### Methods of Applying Foreign Capital Have Been Invigorated and Diversified

In recent years, Tianjin's ways of utilizing foreign capital have been invigorated and diversified; channels are expanding daily. With the approval of the main office of the People's Bank of China and based on the principle of self-borrowing and repayment of loans from external areas, Tianjin has undertaken separate external area loans from the Tianjin branch of the People's Bank of China and the Tianjin International Investment and Trust Corp worth \$50 million. The conditions of the loans were comparatively favorable. At present it has been applied to large-scale engineering tires, bicycles, watches, electronic components, clothing and textiles, and a host of other export and foreign exchange creating projects. Furthermore, the Tianjin International Leasing Corp has been established. This is a specialized, comprehensive, international leasing corporation which mutually integrates trade and finance under Sino-foreign joint capital management; it is a channel for making use of foreign capital. Its management style can be characterized as "borrowing a chicken to lay eggs and exchanging the eggs for money." Though only starting operations last year, through the leasing of funds, foreign capital is spreading about domestically and contracts worth \$3.5 million have been signed. This has aided factories in Tianjin, Liaoning, Jilin, Heilongjiang, Nei Monggol, Hebei, and other provincial regions in importing a multitude of mechanical equipment. Recently Tianjin issues public bonds in Japan worth 100 million yen. This was the first time Tianjin has independently issued bonds on the international financial market in order to raise development funds. On this occasion of Tianjin's issuance of bonds, preparations were sufficient and the time was ripe, so it was a relative success. On the second day of the bond issuance, they sold out. The cost of the issuance was low. Measures to maintain the value of the bonds after their issuance were also satisfactory.

#### Eighteen Enterprises Have Begun Operating in Development Zones

Two years have passed since the first step in constructing the Tianjin economic and technological development zone at the end of 1984. On a barren strip of salty beach the construction of the 3 sq km foundation has been virtually completed and construction of buildings on the surface has reached nearly 200,000 sq m. A factory of 110,000 sq m has already been completed and is ready for use; a dormitory and public facilities of 16,000 sq m has already been constructed and is now in use. The embryo of a small industrial zone has basically taken shape.

In 1986, 32 new Sino-foreign joint capital cooperative project contracts for the development zone were signed. This was a 77-percent increase over 1985, which puts Tianjin at the head of the list for all development zones throughout China. Calculating up through the end of last year, contracts have been signed for 50 projects and within the zone 18 joint management enterprises are operating. During the year the output value came to 27 million yuan and exports totaled \$5.54 million.

#### Responsibility Contracts With Foreigners and Labor Service Cooperation Continues To Expand

In 1986, the international labor service market was sluggish; under these circumstances, this aspect of Tianjin's services grew steadily. Up until the end of last year, 2 engineering contracts, 15 ship service contracts, 15 industrial and other labor agreements, and 8 external joint capital projects were signed and sealed. The scope of these services has expanded to 21 nations and regions and the total value of these contracts and labor agreements was \$9,397,000, 18.4 percent higher than the year before. Business profits were \$1.18 million, 84.6 percent higher than the year before.

In September of last year, the Tianjin China International Economic and Technological Cooperation Corp tendered a bid of Democratic Yemen's international call for bids for the Aden highway project. This was the first time that Tianjin has entered Democratic Yemen's international engineering contract market. Labor services cooperation, mainly in the form of seamen, has also grown quickly. Last year the number of seamen dispatched nearly doubled that of 1985. This was the best year since the launching of the seamen dispatching service. Based on market research, Tianjin has selected a product agenda suitable for sales outlets and industry and trade units have linked up cooperatively in setting up joint capital factories overseas. At present, there are eight projects, including a Rwandi rubber shoe factory, an enamel factory, a shoe wax factory, a Canadian farm and a Singapore pharmaceuticals and provisions plant. These overseas joint capital enterprises require a small investment, the return period is short, and economic gains are relatively good.

#### Invite Experts and Bring in Foreign Talent

Tianjin is still focusing on construction and technological transformation projects. At the same time that technology is being brought in, experts are being invited and foreign talent brought in. Thus far, there have been 86 such projects and more than 140 experts have been invited. They are all foreign talent with specialized knowledge and abundant experience, and they have brought forth many suggestions regarding Tianjin's economic development. The Tianjin Perfume Factory invited a retired expert who aided the factory in choosing a new catalyst and a new direction for the trade. This helped increase income on the commodity and it surpassed other domestic factories of

the same product line. In order to deal with problems of assimilating technology after its importation, some factories have brought in foreign experts which increased the effectiveness of this absorption task. The Tianjin Electrical Machinery Factory imported software for the underwater electrical machines from the FRG Federal Republic of Germany; the product was unable to meet the quality requirements, so they invited in foreign experts. Under the guidance of these experts, the production problem was solved, which accelerated the development of this new product. In laying stress on scientific research projects, Tianjin invited foreign experts in for cooperative research. The Tianjin Light Chemical Engineering Research Institute invited foreign experts to come to Tianjin for cooperative research. Results were forged as the quality of the goods rose, which served to strengthen competitive capabilities in exporting.

#### New Breakthroughs Are Needed This Year

As to Tianjin's economic and trade relations with foreigners, this year the general need is for significant action and new breakthroughs in the open door. All trades and industries should adapt, support, and put in practice the open door; they should expand in a liberal manner, gear toward the outside world and toward light processing industries.

Great strides must be taken in the utilization of foreign capital. Relevant departments in Tianjin are actively making preparations for the collection of funds and application of foreign capital. They are setting up strong and powerful working teams and a guidance system, and they have promulgated a program for the optimal utilization of foreign capital. It has already been determined that this year Tianjin will use foreign capital for on projects producing goods in great demand export projects that engender foreign exchange and short, level, and speedy projects as well as to projects that bolster the technological base of industry and the level of export production. It will also be utilized in projects to improve the fundamental aspects of the investment climate.

The depth and breadth of the open door is hinged on the level of export exchange that is engendered. In order to make better use of foreign capital and imported technology, Tianjin is preparing this year to raise economic benefits as follows and step up efforts in expanding exchange earning exports. Preparations have been made to greatly raise the quality of export commodities and expand production of commodities that meet market demands in order to strengthen the competitiveness of export products in international markets. They plan to continue encouraging relevant policies and measures. Stemming from the growth requirements of an open style, geared in the direction of foreign-oriented and light processing industry adjustments in the industrial and agricultural commodity structure must be hastened, an export production and commerce system should be set up and export products in great demand must be expanded. In launching sales-oriented

trade, this year Tianjin is preparing for a big breakthrough. The U.S. dollar is currently declining in value and the Japanese yen has risen sharply in value. This is a good moment to proceed with bringing in raw materials for processing. Tianjin's advantages must be employed and a great effort put forth to expand imports of raw materials for processing and component parts for assembly.

In order to continue thoroughly implementing the State Council's "Regulations Regarding the Encouragement of Foreign Commercial Investment" and to continue reforming the investment climate, Tianjin is getting ready to establish a small organization under the municipal government for the task of guiding the application of foreign capital, overall planning and the coordination of foreign capital use throughout the city. This year at the beginning of March or April a foreign capital service center will be established in order to provide foreign investors various needed services, to simplify procedures, and to raise the efficiency of work. Tianjin is still actively arranging for the creating of a workers service corporation, a workers insurance corporation, and a foreign capital enterprise goods and materials supply and service corporation for the purpose of improving and helping to solve production problems within Sino-foreign joint capital enterprises. It is also necessary to bolster laws concerning affairs related to foreigners and perfect local regulations in that regard and also arrange to establish a court for foreign economic affairs; its primary duty would be to guarantee the legal rights of foreign investors based on the law. At the same time, relevant departments must improve services for the daily lives of long-term foreign residents in Tianjin and dispel their "homesickness."

To actively bring in foreign talent, especially managerial talent, is a feature of Tianjin's open door task this year. According to the suggestions of relevant departments, industries and enterprises possessing the right conditions should arrange to invite in foreign experts to help handle enterprises management, administrative policies, product sales, technological transformation, and technical training. Some light industries are getting ready to try out a cooperative relationship with foreign enterprises in order to raise product standards and expand international sales.

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CSO: 4006/558

ECONOMIC ZONES

ECONOMIC

BRIEFS

ECONOMIC ZONES FAVORABLE CLIMATE--In the two years since the 13 economic and technological development zones were first opened up, they have begun to develop a favorable climate for foreign investors. Since 1984, they have already invested a total of 2.35 billion yuan in capital construction, of which 1.45 billion yuan has gone into basic facilities. During the past two years, together they have signed 282 contracts valued at 1.85 billion yuan of which 165 projects will involve foreign investment totalling \$370 million. Of the 124 projects for which investment has already been committed, 56 are foreign funded projects and 68 are projects funded domestically. The gross value of these projects' industrial output has already reached 200 million yuan and export earnings have exceeded \$23 million. [Excerpt] [Beijing GUOJI SHANGBAO in Chinese 25 Jun 87 p 1]

CSO: 4006/820

## GUIDANCE GIVEN ON NEW ECONOMIZATION CAMPAIGN FOR RAILROADS

Beijing RENMIN TIEDAO in Chinese 12 Apr 87 p 2

[Article by Political Department, Ministry of Railways: "Build Railroads Through Arduous Struggle, Thrift, and Hard Work; Strive To Realize the Objectives of 'Dual Increase and Dual Decrease' (Propaganda Guidance)"]

[Text] The CPC Central Committee and State Council have proposed that during the 1987 campaign to increase production and decrease costs and to increase income and decrease spending in the economic realm, each trade and industry should advocate a social atmosphere of building the country through arduous struggle, of thrift and hard work, of making greater contributions, and of strict observance of discipline, opposing ostentation, the parading of wealth, extravagance, and waste. By way of carrying out the Central Committee's instructions, the Ministry of Railways has issued "Notice on the Thorough Launching of a Campaign to Increase Production and Decrease Costs, and to Increase Income and Decrease Spending" throughout the railroad system, and has provided clear-cut struggle objectives and specific requirements for the launching of this campaign throughout the railroad system. Staff members and workers throughout the railroad system are to respond resolutely to the call from the party and the country, show a positive attitude, and become involved in the campaign at once in order to make a contribution to the advancement of large-scale assignment of responsibilities, pervasive reform of enterprises, expansion of transportation capacity, and increased economic results.

I. Profound Understanding of the Important Significance of the Launching of a Campaign of "Dual Increase and Dual Decrease" by All Railroad Lines

Why this campaign should be launched at this time is a matter that we should clarify at the outset. Understanding of this issue among some staff members and workers is by no means all that clear. Some staff members and workers suppose that this campaign is for the purpose of getting everyone to economize on clothing and cut back on eating. Some suppose that is an expedient measure taken by the state to solve its financial difficulties. Others suppose it is for the purpose of solving problems in the consumption realm, and has nothing to do with them personally. Still others maintain an attitude of "the railroad is a big industry, so a little waste means nothing." Therefore, the key in making this campaign pervasive is to make people realize fully the true significance of the "dual increase and dual decrease" campaign.

The country's economic situation is truly very good right now. Achievements that have been generally recognized throughout the world have been scored in reform, in liberalization, and in the building of the economy. The standard of living is improving year by year, and the situation with the railroads is likewise very good. During the past year, the railroads have achieved initial victories in the large-scale assignment of responsibilities, and a fine situation of sustained and steady development has taken place throughout the railroad system.

While affirming the main trends in the current situation, one must also realize that elements of instability lie concealed in economic life, and that some problems urgently in need of solution exist. In terms of the country as a whole, the speed of economic growth has been too fast, and an abnormal situation of not very high economic results has yet to be completely turned around. The problems of investment on too large a scale and too sudden an increase in consumption have yet to be effectively solved, with the result that the conflict between total social demand exceeding total social supply has become increasingly pronounced. One of the important factors creating this state of affairs has been that some comrades have been carried away with the fine situation, and they want to get going and go all out across the board. Investment in fixed assets has become larger and larger, and spending of all kinds have become greater and greater. This has adversely affected the coordinated and stable development of the entire national economy and some danger signs have appeared.

These unstable elements that remain concealed in economic work are reflected, in varying degrees, in the railroads. The overheated atmosphere has also engendered a serious tendency toward luxury and extravagance, ostentation, display of wealth, and waste by some departments and units in the railroads. In the building of production, waste and extravagance are fairly universal. Some units do not gauge their capabilities before proceeding. Projects compete with each other for investment, and quite a few non-productive projects are squeezed in under the guise of being key construction; free spending, extravagance, and waste continue to exist. Standards are set too high for key projects, and there is a tendency to go in for grandiose projects. Transportation costs have risen year after year and the profit rate has declined markedly. Granted that this is very much related to the too low prices charged for transportation, and the added costs for replacement of materials used by railroads; nevertheless, serious waste by railroad enterprises is also a major reason.

Railroads continue to be the weak link in the national economy. Ours is a developing country with a large population and little accumulated wealth that is still beset with difficulties in terms of financial and material resources, and that cannot devote more funds to hasten the development of railroads. The state's willingness to have railroads practice large-scale assignment of responsibilities is for the purpose of making full use of the enthusiasm of staff members and workers throughout the railroad system for self-remolding and self-development through reliance on their own capabilities, thereby making a greater contribution to the country. However, large-scale assignment of responsibilities faces numerous difficulties at present, and the situation



is very grim. This is manifested particularly in the maintenance of safety and in increasing the volume of traffic despite antiquated equipment and serious neglect of repairs. Moreover, the traffic capacity of principal trunklines is also already saturated, making it very difficult to increase capacity through the tapping of potential. As a result, it is difficult to increase to any extent either traffic capacity or transportation income. Increase in the percentage of materials purchased at negotiated prices has brought about a rise in transportation production costs, and it will become harder to effect a balance between income and spending of public funds. Furthermore, the low prices charged for railroad transportation limit earnings and also hurt both fundraising and increase in profits. At the present time, in particular, when an atmosphere of cutbacks pervades the whole country and the scale of capital construction has been reduced, a rise in railroad traffic volume is bound to be limited and the shortage of freight on some trunklines will likely become more prominent. The three campaigns of "a line between Datong and Qinhuangdao in the north, tackling work on the Hengyang-Guangzhou line in the south, and concentrating on east China in the midsection of the country," as well as the technical transformation of the locomotive and rolling stock industry have entered a critical phase in which investment has entered a peak period and large amounts of funds are required. Since the number of railroad construction projects is large, the investment great, the period of turnover long, and recovery of funds slow, there may be difficulties in getting low-interest long-term bank loans and joint-venture construction funds.

Nevertheless, no matter how numerous the difficulties, and no matter how great the risks, we cannot put out our hand to the country again. We cannot wait, depend on, and ask for. What can we depend on? We have to depend on the long arduous struggle, the thrift, and the hard work of our 3 million railroad staff members and workers, which means we have to depend on increased savings, increased earnings, and decreased costs to create greater accumulation of funds. This is what is meant by self-transformation and self-development of the railroads, and this is where the crux of success or failure in large-scale assignment of responsibilities lies. This is the fundamental way in which to fulfill the strenuous task of large-scale assignment of responsibilities. Quite a few comrades already realize as a result of a year's practice in effecting the large-scale assignment of responsibilities that "dual increase and dual decrease" is the key to opening the door to certain victory in the larger scale assignment of responsibilities.

Consequently, close involvement in the launching of the "dual increase and dual decrease" campaign is not only a strategic action for strengthening the building of socialist material civilization and insuring the victorious fulfillment of the task of large-scale assignment of responsibilities, but is also an important action for further rectifying party style and railroad style, and for fostering a fine workstyle among rank-and-file staff members and workers.

## II. Take Firm Hold of The Crux of Matters and Implement Measures To Insure Realization of the Objectives of the Struggle To Increase Output and Reduce Costs and To Increase Income and Decrease Spending

1. A firm grip on increasing output and increasing earnings requires concentrating time and efforts on the tapping of potential within enterprises to increase economic benefits. Under present circumstances of limited funds and inability to depend on the mounting of very many construction projects, the daunting task of completing the contract objectives put forward by the Ministry of Railways' leading party group for transportation income on the entire railroad system in 1987, and exceeding them by 1 to 2 percent will require bringing into full play the enthusiasm of staff members and workers on the entire railroad system, devoting efforts to tapping potential and seeking results within enterprises. It is necessary, first, to take a firm grip on operating service revenues that are the main source of income for railroads. In transportation, attention has to be devoted to running trains strictly according to plans, balanced transportation serving as the fundamental measure for realizing increased output and decreased costs, and increased income and decreased spending. Train flow has to be organized rationally to reduce to the maximum extent possible wasteful situations in transportation including a lack of axles, waiting for lines, a single engine operating in two different directions, and running somewhat behind schedule, vigorous efforts being made to increase the running of fast-traveling through trains, heavily loaded through trains, and long-distance through trains to improve transportation quality. In the passenger-transportation area, the number of ticket sales points should be further increased, advance ticket sales expanded, and the quality of travel service improved to attract larger numbers of travelers to travel by train. In the freight-hauling area, given the present freight shortage, more freight has to be found, assembly of freight has to be organized in a sensible manner, static carrying capacity increased, the common use of special-purpose lines increased, more unloaded, more loaded, and strict checking of weight done to plug leaks in order to insure and to maintain proper railroad revenues. Second, the advantages that railroads provide should be used to develop and explore new services, attention being given to income from other than transportation services. Improvement of service quality should serve as the basis for vigorous development of diversification to expand sources of revenue. Capital construction units should actively tender bids and contract to do peripheral projects, making use of idle work forces, machinery, and transportation equipment to earn more income. While insuring improvement in product quality, industrial units should use the completion of production tasks as a basis for developing and increasing the production of readily salable, high-quality, and long-lasting merchandise and export wares, produce various kinds of goods needed in society, begin external consulting services, and contract research and testing for peripheral processing, design, and scientific research projects in order to increase earnings.

2. Strict control over the scale of investment, putting efforts on getting the most out of investment: Because of too much past neglect of living facilities, the substantial sums spent in recent years to solve urgent needs in this regard have been entirely necessary, and equitable consideration will have to be given them in the future as well. However, quite a few non-productive facilities that have not been urgently needed have also been built.

In some cases, projects have been too grandiose; progress has been slow; and results from investment have been poor. The entire railroad system has to institute a policy of "three guarantees and three restraints," conscientiously checking on projects under construction, and not stress the "special circumstances" of one's own unit. Were everyone to stress his own "special circumstances" and not care about exercising restraint, the "three guarantees and three restraints" would be hard to realize. We have had profound lessons in the building of the economy. Unless there is a little restraint today, there will have to be great restraint tomorrow, and the losses created thereby will be greater. If everyone proceeds by taking the overall situation into consideration, delaying the expansion of transportation that is not urgently needed, and controlling construction projects for which investment can be curtailed, thereby freeing limited funds for concentrated use, it will be possible to "guarantee" that the railroad construction projects, and the key projects, the supporting projects and the capital construction facilities having a bearing on the reserve strength of the railroads during the Seventh 5-Year Plan can be started on time, built without difficulties, and either go into production or be turned over for use on time. This will mean the early creation of production capacity, an increase in traffic volume, increased conversion of turnover, and a rise in profits for greater economic benefits. Consequently, all units should take the initiative to halt or slow the building of nonproductive projects and nonproductive individual parts of key construction projects that are not urgently needed to expand transportation capacity. They should strictly control capital construction, the scale and the standards for housing, cutting costs beginning with the inception and designing of projects, doing things strictly in accordance with capital construction control procedures, calculating strictly and budgeting carefully, organizing construction over a reasonable time period, and lowering project construction costs in accordance with unified state requirements.

3. Lowering of consumption and curtailment of spending, efforts being made to reduce internal waste: Reducing spending and increasing income are equally important. Unless spending is reduced, one might as well try to ladle water with a sieve, hard earned money leaking away. Thus, reduced spending is an important aspect of increased output and increased earnings; it is an increase in income that requires no investment and no payment of taxes. Effective actions have to be taken to change the current situation in enterprises of high consumption of materials, big spending, and astounding waste. Unless this is done, transportation and product costs will continue to rise and profits will continue to fall, making it difficult to increase staff members' and workers' wages, which will not only hurt the interests of the state and of enterprises, but also will directly hurt the personal interests of the broad masses of cadres and workers. In order to do this, we must make concerted efforts to reduce internal waste, carefully calculate and strictly budget expenditures for production, and choke off nonproductive expenditures. First all units should buttress administration and management of transportation, production, and capital construction, reduce consumption of materials, and curtail unnecessary spending. They should actively promote projected cost management responsibility systems, intensify cost forecasting, planning, control, accounting, and analysis; strictly enforce all rules and regulations, promote standardized work procedures, insure operating safety, reduce product quality mishaps, and put an end to "running, venting, dripping, and leaking"

of equipment; strengthen materials control and supply work, devote efforts to the conservation of raw and processed materials and energy, place limits on the amount of scrap, cut back on bonuses, and institute a system of penalties for waste; carry out a widespread inventorying and checking of warehouses, repair and utilize old or discarded things, practice thrift and make substitutions, and recover and recycle. Second, major efforts should be made to curtail spending for administration and management; purchases of high-quality consumer goods should be strictly controlled in accordance with Ministry of Railways' leading party group requirements; and spending for non-productive things, such as conference administrative expenses, should be strictly controlled. In addition, the concocting of various pretexts to issue bonuses, material benefits, and subsidies indiscriminately should be forbidden to put a stop to all needless spending.

4. Need to increase output and practice economy in S&T progress, efforts being made to apply and promote advanced technology: Scientific research and technological transformation are important ways in which to infuse increased output and decreased spending with greater vigor and vitality. Both improvement of product quality and lowering of material consumption has to be done through the opening of new avenues in science and technology. Expansion of S&T personnel has to center around increases in economic results, and intensive study of science and technology as well as progress toward science and technology requires increase in output and the practice of economy. All units should bend major efforts to applying and promoting new products, new techniques, new materials, and new technology, and to the saving of materials, petroleum, coal, electricity, and water to improve transportation capabilities and production capabilities, and to lower energy and raw materials consumption. Particular attention should now be given to the application and promotion of S&T achievements that expand capacity, increase effectiveness, and insure safe production of transportation.

### III. The 3 Million Staff Members and Workers Throughout the Railroad System To Take Positive Action To Score an All-round Victory in Increasing Output and Decreasing Costs, and in Increasing Income and Decreasing Spending

Whether this campaign to increase output and decrease costs will be conducted well, and whether the task of increasing income and decreasing spending will be completed will depend, in the final analysis, on the efforts of the broad masses of staff members and workers throughout the whole railroad system. The working class on China's railroads has the glorious tradition of revolutionary combat and arduous struggle in the "February 7" [1923] Massacre, and of hard work and thrift in building the railroads. During both the war years and the period of building socialism, they have made conspicuous contributions to the revolutionary cause. During the current campaign, if only the 3 million staff members and workers throughout the railroad system will function as a main force, they will certainly be able to triumph over all adversity and score all-round victory in this campaign.

The broad masses of staff members and workers must clearly understand that the launching of the "dual increase and dual decrease" campaign is to improve the situation in state financial receipts and disbursements and to advance the sustained, steady, and coordinated development of the national economy. It is

in the fundamental interests of railroad enterprises and their staff members and workers, and completion of the task of increasing output and cutting costs, and of increasing income and decreasing spending is an unshirkable duty. Major efforts must be devoted to saving even the smallest amount of resources, whether it be 1 kWh of electricity, 1 drop of water, 1 shovelful of coal, 1 inch of steel, and 1 railroad spike. Strict attention must be given to the tapping of potential, increasing capacity, raising efficiency, using one's head, thinking of ways to cope, making sensible suggestions, proposing ways and means, energetically launching mini-campaigns for innovation, designing, reform, and invention, and actively participating in required shock production and obligatory labor; in the launching of widespread socialist labor competitions centering around the "five one's," namely, everyone to foster ideals and do one good deed; be more lively and take part in carrying out one reform; become a leader and make one sensible suggestion; learn a skill, and become versed in one basic function; and make a contribution, saving 100 yuan per capita, diligently studying new skills, new technologies, and new methods, and mastering, as quickly as possible, the functioning and the actual way to operate all advanced equipment in order to increase work efficiency. In short, the broad masses of staff members and workers should make the most of their initiative to increase output and reduce costs, to increase income and decrease spending, to spare no mental or physical effort, to make a greater contribution, making sure that small matters do not get lost while large matters are being attending to, being no less concerned about a sesame seed than a watermelon, increasing where increase is necessary and saving whenever a saving is possible to bring into being throughout the railroad system a fine atmosphere of increasing output and reducing costs being glorious, extravagance and waste being shameful, everyone vying to make a contribution.

CPC members, CYL members, labor models, advanced producers (or workers), and activists must play a greater role as key cadres, bridges and leaders, courageously shoulder responsibilities, and make greater contributions. They must be perfectly selfless, put the welfare of others before their own, dare to struggle against extravagance and waste, and use their own model behavior to unite and lead the broad masses in advancing together.

Cadres at all levels throughout the railroad system, and particularly leading cadres, bear a heavy responsibility for leading this campaign. During this campaign, they should do their own work in a dependable manner, observing in an exemplary fashion the "few simple rules to be observed by all" put forward by the Ministry of Railways' leading party group, set a personal example, resist bad tendencies toward ostentation, the parading of wealth, social climbing, and extravagance and waste and act as models. It is necessary to become closely involved with the mass of staff members and workers to gain an understanding of how the campaign to increase production and decrease costs, to increase output and decrease spending is progressing, to summarize experiences constantly, to discover problems and solve them at once, and to guide the protracted and healthy development of this campaign.

Cadre and worker comrades, let us struggle arduously and fight stubbornly under guidance of the CPC Central Committee's policy of "increase output and decrease costs, hard work, and thrift in building the nation, and hard work

and thrift in every undertaking," and act under leadership of the Ministry of Railways leading party group, to achieve completely the combat goal of "dual increase and dual decrease" throughout the railroad system, scoring victory in every battle for the large-scale assignment of responsibilities and insuring that the railroads meet every strategic objective during the Seventh 5-Year Plan.

9432

CSO:4006/710



## NEW RAILROAD FREIGHT REGULATIONS TAKE EFFECT

Beijing RENMIN TIEDAO in Chinese 8 Apr 87 p 1

[Article by Correspondent Ji Jie [4764 2638]: "'Detailed Rules and Regulations on Railroad Freight Transportation Contracts' To Take Effect on 1 July; a Major Event in the Building of a Legal System for the Country's Freight Transportation"]

[Text] Beginning 1 July, railroads throughout the country will put into effect the "Detailed Rules and Regulations on the Implementation of Railroad Freight Transportation Contracts" (hereinafter referred to as "The Regulations"). Business concerns, rural economic organizations, state organizations, institutions, and social bodies, as well as individuals who consign freight to railroads for shipment will have to sign freight transportation contracts with railroads. The signing of contracts will be a legal act for both the consignors or consignees and the railroad, and will help apply the law to the protection of the legal rights of the parties concerned. This is a major event in the building of a legal system for the country's railroad freight transportation.

The range of railroad transportation has expanded steadily since founding of the People's Republic, and the Ministry of Railways has formulated and published, one after another, regulations pertaining to freight shipments; however, the country has lacked a comprehensive law that cuts across all provisions. By way of bolstering the building of a legal system for freight transportation, at the end of 1982, the Ministry of Railways summarized experiences in the country's railroad freight transportation work on the basis of pertinent regulations contained in the "People's Republic of China Economic Contracts Law," and made additions of a regulatory nature to parts of the economic contracts law pertaining to the implementation of railroad freight transportation contracts. Following revision, this became the "Detailed Rules and Regulations on the Implementation of Railroad Freight Transportation Contracts." Once approved by the State Council, it was published by the Ministry of Railways to go into effect. "The Regulations" are the principles to be used in signing freight transportation contracts. They provide explicit regulations on the concluding, carrying out, modification, and abrogation of railroad freight transportation contracts, as well as on responsibility and indemnification for contract violations. As a result, railroad freight



transportation contracts have more explicit and more complete legal meaning. Consignors, carriers, and consignees must execute them.

"The Regulations" provide that when consignors sign a freight transportation contract with a railroad, they must follow the principle of priority transportation of goods covered by state command plans, concurrent consideration being given to both command plan goods and other goods, contracts being signed on the basis of goods allocation and transfer plans handed down by the state and railroad transportation capacity. This fully embodies the principles of a socialist planned economy, and further makes clear that insuring fulfillment of state plans is a legal responsibility that both the carrier and the consignor must bear. For example, annual or monthly transportation contracts may be signed for staple materials, such as coal, petroleum, lumber, minerals, steel, and food, that are covered by state mandatory plans. For full car shipments of nonmandatory plan goods, both parties may sign monthly shipping contracts.

Railroad freight transportation contracts are legally binding on both parties. "The Regulations" further clarify the rights, duties and limits of responsibility of the carrier, the consignor, and the consignee. They insure the normal conduct of economic activity. After freight transportation contracts have been signed, all parties to the transaction must live up to their conditions; those who do not live up to them, causing violations of the agreement, are to bear responsibility for breaches of contract, and are to pay the other parties 50 yuan per day for breach of contract. From the time of consignment of freight until the freight is turned over to the consignee, or until handling as agreed is completed, the railroad is to bear responsibility for indemnifying any losses, damage, shortages, spoilage, or contamination of the freight, except for those attributable to force majeure, those caused by the nature of the goods itself, reasonable losses set by the state, and those resulting from mistakes made by consignors, consignees, and freight escorts. Such a regulation is for the purpose of stressing the responsibility of the railroad for protecting shipped materials, and also in order to guard against consignors pushing off all responsibility on the railroads once they have turned freight over to them, not taking any responsibility themselves.

"The Regulations" provide for a compensation system for indemnifying freight shipping losses that is a combination of insurance and railroad responsibility for shipments. This is an important reform in the system pertaining to indemnification in shipping contracts. Legal support for and promotion of the smooth implementation of this reform applies to each sealed container of freight with a value of 700 yuan or more, or to bulk cargo with a value of 500 yuan or more per ton. The consignor may insure against freight transportation risk. Losses to freight that has been insured for transportation risk are to be borne by the railroad, the railroad paying compensation below the set amounts, and the insurance company bearing responsibility for compensation over the set amounts. Claims for compensation for mishaps resulting from violations of the freight transportation contract are to be filed by the railroad and the consignor within 180 days. Demands for payment by both parties are to be settled and a reply made to the one demanding compensation within 30 days from date of receipt. "The Regulations" provide that disputes about freight shipments are to be settled through consultation between the

railroad and the consignor or the consignee. When agreement cannot be reached, any of the parties may request mediation or arbitration by contract control authorities, and they may also bring suit in a people's court.

A person in charge of such matters in the Ministry of Railroads told the correspondent that since institution of "The Regulations," "Railroad Freight Transportation Regulations," which serve as the basic rules for all requirements pertaining to railroad freight transportation, remain in effect, but have been revised in accordance with the spirit of provisions of "The Regulations," and continue to guide all railroad freight transportation work. The broad masses of staff members and workers engaged in freight transportation are now in process of studying and publicizing "The Regulations." They are determined to study the law, to carry out the law, to abide by the law, and to transport freight according to "The Regulations," so the people can set their minds and rest and so the people will be satisfied.

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CSO:4006/711

## UPDATE PROVIDED ON RAILROAD SAFETY

Beijing RENMIN TIEDAO in Chinese 12 Apr 87 p 1

Article by Reporter Kang Yuming [1660 3768 6900] and Correspondent Guo Lunhua [6753 6544 5478]: "Improvement in Traffic Safety Throughout the Railroad System During First Quarter; Numbers of Major and Big Accidents Decline 26.7 Percent From Same Period in 1986"]

[Text] Thanks to the solid job done by the broad masses of staff members and workers in the transportation sector, the trend of development has been toward improvement in safety throughout the railroad system. Major and big accidents during the first quarter of 1987 have been 26.7 percent fewer than during the same period in 1986, and 31.3 percent fewer than during the fourth quarter of 1986. This includes two fewer accidents in February than in January, and three fewer accidents in March than in February. March had the smallest number of accidents in recent years, and it was also one of the best months for the production of transportation.

The key to improvement in safety may be found in the serious attention given to safety by leaders at all levels. Several times during the last half of 1986, State Council leaders issued important instructions on railroad safety, and Ministry of Railways leaders also repeatedly stressed the importance of safety in production. One bureau and one department after another also looked for current problems. Following the railroad system transportation work conference, all railroad bureaus made a beginning in the correct handling of the relationship between safety and the expansion of capacity, and between safety and efficiency. They summarized the lessons of experience, and gradually changed from traditional safety control to scientific control. The advanced experiences of the Mudanjiang, Tianjin, and Nanchang branch bureaus were promoted throughout the system, and basic theories and methods of modern control, such as systems engineering and cybernetics, were applied to guide safety in production. Branch bureaus, station sections, and teams and groups up and down the line formed safety control networks, safety control networks, safety information networks, and safety check networks to underscore safety control. Many railroad bureaus instituted management by policy objective, objectives being broken down level by level both vertically and laterally, each level formulating actions to be taken to insure realization of objectives, good performance in production safety becoming the direction in which units, departments, staff members and workers applied themselves.

Great results in traffic safety were also apparent from the use of new techniques and new equipment. The installation rate for signaling equipment in locomotives and for automatic train-stopping equipment on trains operating on major trunk lines is now more than 90 percent. Axle-heating warning equipment has been installed on 3,396 individual passenger cars, installation having been completed on all express trains entering Beijing and Shanghai from all bureaus, with the exception of the Shenyang and Jinan bureaus. Automatic signals and alarm devices have been installed at 1,014 crossings, and 1,524 rain gauges have been put in place for the monitoring of floods. Automatic equipment to warn against landslides and falling rocks has been installed at 77 places. Investment in safety equipment by all bureaus has been higher than in previous years. Railroad crossing safety, a matter of interest to the public, has also taken a turn for the better. Following the issuance in 1986 of "Temporary Regulations on Railroad Crossing Control," by 7 ministries and commissions, governments of all provinces, autonomous regions and directly administered municipalities devoted extremely serious attention to this matter, 12 provinces and municipalities setting up railroad crossing safety committees. As of the end of 1986, a total of 4,600 improper and privately made railroad crossings throughout the system were removed in a 17-percent reduction in the number of railroad crossings. Another 1,587 crossings had watchmen assigned them, and 203 grade-level crossings in cities were changed to overpasses. After having done a large amount of work, the number of traffic accidents caused at crossings during the first quarter of 1987 was 5.3 percent fewer than during the same period in 1986, including a 34-percent reduction in injuries and deaths at major roads.

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CSO:4006/711

# SOVIET AND EAST EUROPEAN EXPERIENCE WITH REFORM

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 5, 15 May 87 pp 42-45

[Article by Wang Aizhu [3769 1947 2612] of the Department of Economics, Fudan University: "Soviet and East European Experience With System Reform"]

[Text] Economic system reform certainly requires that we start from China's actual situation and summarize our past negative and positive experiences in order to establish a characteristically Chinese socialism. At the same time, we must also pay attention to and study the experiences of other countries, particularly those of the Soviet Union and the East European countries.

Given the overall reform situation in the Soviet Union and the East European countries, economic reform needs to be implemented together with political and social reforms. Without economic reform, it would be impossible to achieve a thriving economy and social stability; likewise, without political and social reform, it would be difficult to sustain and thoroughly implement economic reform. Beginning in the 1950's, and especially since the 1960's, the Soviet Union and several East European countries implemented reforms in accordance with the objective requirements of the time, but the political system and social custom remained unaffected. Whenever difficulties or setbacks were encountered, economic reform stagnated, was pushed back, or was simply terminated. More and more countries are now recognizing the need for complete, complementary reforms. The new leader of the Soviet Communist Party, Mikhail Gorbachev, explaining his strategy for accelerating the country's social and economic development at the 27th Party Congress, stated emphatically, "The program for accelerating development cannot be reduced simply to reorganization in the economic arena." "The strategy of acceleration requires perfecting social relationships, renewing the types and methods of work of political and ideological organs, intensifying socialist democracy, resolutely eliminating laziness, stagnation, and conservatism, and, in other words, eliminating all things standing in the way of social progress." Hungary's ECONOMIC REVIEW, in an article discussing the issue of reform in European socialist countries in the 1980's, states, "Economic reform will necessarily bring about thoroughgoing social and political change. These reforms require that democratic changes be made in the current state organs and social relationships; they require the creation of new institutions or development of the existing ones to assist in coordinating individual interests and overall social interests. This is because, without effective and flexible institutions

established on a foundation of social consensus to coordinate interests, even the most rational systems of economic management and regulation will be obstructed or even become meaningless. Hungary's long history of reform amply demonstrates this."

Applying the experiences in economic system reform of the Soviet Union and the East European countries to China's situation, we find that the following eight relationships must be properly handled:

1. The relationship between reinforcing plan guidance and exploiting the positive effect of markets.

In its economic reform, Yugoslavia emphasized the role of markets, but the guidance provided by its social plans was weak and, because these plans lacked the necessary centralization and uniformity, they led to local factionalism and destroyed the country's central socialist market. The Soviet Union adheres to a planned economy, but it understands "planned economy" as the implementation of mandatory plans, which makes the system rigid, inflexible, and inefficient. By eliminating mandatory plans and implementing guideline plans, Hungary integrated its planning guidance with positive market effects. China's vast territory, huge population, poor communications, slow information, and unbalanced economic and educational development are difficult to change in the short term; under these circumstances, mandatory and guideline plans must coexist. The future trend should be towards basically eliminating mandatory quotas assigned by the state to enterprises. All enterprise economic activities should be carried out through the market; the state's plan management should also be applied through the market, with the economy's driving mechanism being plans regulating the market and the market regulating enterprises.

2. The relationship between the state's centralized leadership and expanded enterprise autonomy with worker participation in management.

Reform in the Soviet Union and the East European countries has led to varying degrees of expanded enterprise autonomy, with workers participating directly in managing economic and social matters, and an attendant gradual democratization and socialization of management. Yugoslavia has opposed ownership, allocation, and utilization of the means of production by the state, proposing rather that they be owned socially, with enterprises allocating and utilizing them autonomously. Comparatively speaking, Yugoslavia is doing well with autonomous and democratic management of enterprises, and these enterprises are vigorous. However, centralized leadership over the Yugoslavian federation is rather weak, with the various republics and autonomous provinces having considerable authority and influence on such important matters as investment, taxation, and prices in the areas under them. As pointed out by Wei Zha-er-ke-wei-qi [4850 2089 1422 4430 4850 1142], former chairman of the central presidium of the Yugoslavian Communist Alliance, Yugoslavia, "in doing away with the centralization of state power, produced multicentered nationalism. This worked against the centralization and unity needed by the federation and hindered implementation of a system of socialist autonomy; it is the leading cause of the economic crisis." The Soviet Union stresses that the means of production properly belong to the state, with

enterprises being run and managed by the state. Although workers are legally the masters of the state and of enterprises, they have played no genuine guiding role in enterprise management. The program of economic reform set by the 27th Soviet Party Congress stresses expansion of enterprise decision-making authority and increasing the responsibility of enterprises for the results of their operations. At the same time, it also sets forth the ideology of socialist people's autonomy in order to truly realize the workers' position as masters in production and in society and to mobilize the masses' enthusiasm and sense of responsibility. China's current reforms are appropriately separating ownership of state enterprises from management authority over them, which affects not only the nature of the system of ownership by the whole people but can also mobilize worker enthusiasm for managing enterprises. At the same time, it will have no effect on the application of centralized, uniform leadership over the economy as a whole by the state, which serves as representative of the people.

### 3. The relationship between proper handling of economic growth and higher wages, and price reform.

Wage and price reform are the two most important and problematic aspects of economic reform. During the reform process, several East European countries have shifted the higher costs of wages due to excessively rapid wage increases over to the price of products, which has led to revolving hikes in wages and prices and has caused the economy to fall into difficulties. For example, in order to achieve rapid economic growth in the early 1970's, Poland carried out a policy of high accumulation, high wages, and high consumption. Because wages rose too quickly, the supply of products could not keep up with demand. The more cash people had on hand, the fewer commodities there were to buy, and the fewer commodities there were to buy, the more people hoarded. At the same time, as commodities became more scarce, the state reinforced price controls and also increased its price subsidies. This fostered egalitarianism in people's incomes and destroyed the incentive effect of wages, which dampened worker enthusiasm and affected economic growth. Excessive price subsidies also increased the state's financial burden, forcing it to adopt measures to raise prices. The moment the government announced price hikes, the workers went on strike, plunging Poland into an economic and political crisis. One major reason for Yugoslavia's recent economic difficulties is that its consumption funds have been increasing too rapidly for a long time, causing revolving hikes in prices and wages (individual income in Yugoslavia). The experiences of the Soviet Union and the East European countries in reform show that reform must yield visible material benefits for the people; high accumulation and low consumption should no longer be sought, but the tendency towards consumption getting ahead and income increasing too much must also be prevented. China's recent reforms also demonstrate that it is very easy for consumption to increase too much during system reform, thereby affecting the balance between overall supply and overall demand, hindering the smooth progress of reform. We should learn this lesson well.

### 4. With regard to increasing accumulation and investment and the scale at which foreign capital and technology are brought in, consideration should be given to the state's actual financial capacity and the results of introducing new technology; foreign borrowing should in particular be strictly controlled.



Yugoslavia, Romania, Poland and Hungary all have lessons to offer us in this area. For example, Poland's use of foreign capital to supplement its financial shortfalls and meet excessive domestic demand for construction and consumption caused it to shoulder a long-term burden. In Hungary's case, the 1973 world oil crisis had a great impact on its economy and its foreign trade surplus changed to a deficit. In the face of this situation, Hungary believed that it needed to compensate for the losses caused by worsening foreign trade conditions; unable to cut back very much on imports, Hungary believed it should increase investment through foreign loans, thereby developing the economy, promoting exports, and achieving the goal of compensating for foreign trade losses. In addition, interest rates on the international market were low at the time, and borrowing was easy. Hungary thereupon began large-scale borrowing. What could be the result of implementation of this policy by a country like Hungary, which relies on imports for 80 percent of its oil needs and must realize 50 percent of its income through foreign trade? Obviously, a large influx of capital requires heavy imports of raw materials and energy, which results in imports increasing faster than exports. Hence, not only has it not been possible to reduce the foreign trade deficit, but the burden of foreign debt has been added. In the late 1970's, Hungary conscientiously learned its lesson from the mistaken economic policy of that time and decided to modify its strategy for economic development by cutting back on domestic accumulation and consumption and lowering the rate of growth so as to achieve balanced trade and reduced pressure from external debt. After several years of readjustment, the whole economy began to turn around; external debt went from \$9.1 billion in 1980 to \$6.2 billion in 1983.

5. We should implement distribution according to work and oppose egalitarianism; income gaps should be suitably widened, but we must also prevent the gap from becoming too great.

Since reform, the Soviet Union and the East European countries have all worked to implement the principle of distribution according to work, but egalitarianism is still quite prevalent in many of them. Some countries have adopted measures to require a suitable widening of income gaps. In other countries, like Yugoslavia, egalitarianism exists within enterprises, whereas between different enterprises the income gap is growing steadily. As they put it, the material status of workers is not determined by how they work, or how much they work; rather, it is determined by where they work, and in what organization they work. A new distribution program approved in 1985 calls for modifications in this situation.

Because China's income policy in recent years has been insufficiently uniform and comprehensive, and because of the growth in unhealthy tendencies, there have been unreasonable disparities in labor compensation from industry to industry and from unit to unit. Therefore, on the one hand the egalitarian wage system urgently needs to be reformed, while on the other, taxation policy must also be used to control excessively high income generated by irrational prices and other factors. In addition, legal measures should be used to punish those who seek exorbitant profits through their positions or by other illegal means. Progressive taxation of wages and taxing bonuses, may also be used to

suitably control increases in individual incomes in order to prevent disparities from becoming too great.

6. The relationship between expanding employment and increasing productivity.

A socialist country must of course ensure that every worker is able to find employment; the right to work is the most fundamental right of every citizen. However, it is not a good idea for a given unit to seek to lower its productivity in order to keep more people employed, with "five people eating three people's rice." Yugoslavia faced this debate during its reforms in the 1960's: should productivity be increased and surplus personnel be cut out, or should productivity be sacrificed to maintain employment? The conclusion of the debate was that productivity should be increased, and excess personnel could look for work elsewhere, or be allowed to take jobs abroad. This not only solved the conflict between wanting to increase productivity and wanting to provide job opportunities to workers, it also provided a considerable amount of foreign-exchange income each year. For many years Yugoslavia has had about a million workers, doctors, and other skilled personnel working in other countries; each year they send large amounts of foreign exchange home, in some years in excess of \$10 billion.

China's labor resources are extraordinarily abundant, and finding work for the labor force is of course primarily a domestic task. We should expand job opportunities to give workers in all sectors the chance to develop their skills to the fullest. At the same time, however, we should also increase our exports of labor. We should not fear an outflow of skilled workers; this would ultimately be preferable to "five people eating three people's rice."

7. The relationship between invigorating the economy and reinforcing management.

In the past, the East European countries had a monadic form of economy; they adopted policies to restrict and squeeze out individual and private economies. Since reform, several countries have relaxed their economic policies, allowing the individual and private economies to develop somewhat. However, there are clear regulations regarding their scope and scale of business and the number of workers they may hire, and restrictions are also applied through taxation. For example, in Yugoslavia in the past, such businesses were allowed to hire five workers, but for a long time the average was less than one; this was because wages were high and a progressive income tax was applied to the employer's income; the higher the income, the higher the tax, up to a maximum of 80 or 90 percent of annual income. Employers were therefore unwilling to hire more workers, and they were not willing to push their incomes above a certain level. In recent years, in order to solve its economic problems and expand employment opportunities, Yugoslavia has allowed as many as 10 workers to be hired, and preferential treatment in taxation is accorded. However, control over them has still not been relaxed.

Urban and rural system reform has advanced significantly in China in the last few years; in fact, some of the larger employers have gone far beyond the realm of the individual economy and have become private, capitalist economies. Because China's productive capacity is currently not very great, and because

economic development varies greatly from region to region, I believe it is necessary and beneficial to allow individual economies and private, capitalist economies to exist and develop. However, we should have clear policies regarding them. For example, the current practice of treating those business with few employees as individuals, and those with more employees as cooperatives, and giving them preferential treatment in taxation and allowing them to compete advantageously with publicly owned enterprises should be changed as quickly as possible. A progressive tax should be levied on them, and control over them should be reinforced to restrict their negative factors.

#### 8. The relationship between self-reliance and bringing in foreign capital.

While insisting on building socialism through self-reliance, the Soviet Union and the East European countries all implement a policy of opening to the outside, enthusiastically participating in the international division of labor and introducing foreign capital and technology. However, it is well worth studying how foreign capital should be utilized. For example, back in 1967 Yugoslavia promulgated a law on foreign investment; it invests jointly with foreign countries and establishes joint ventures, although this has proceeded slowly. Another way in which Yugoslavia utilizes foreign capital is by borrowing, which has increased rapidly, reaching \$20 billion in 1984. Regarding these two forms of utilizing foreign capital, Yugoslavian economists believe that, on the surface, countries that borrow are better able to set their own policies, making borrowing preferable to direct investment; in fact, however, "exerting influence on a country through loans is easier than through direct investment." Introducing foreign capital through loans means that the foreign lender bears no risk; regardless of how the investment is handled, the capital and interest must be repaid when they fall due. With joint ventures, on the other hand, both parties bear the risk together, making this preferable for introducing advanced technology and management and increasing the competitiveness of exported goods. From this it is clear that proper use of foreign capital not only does not pose an obstacle to self-reliance but actually strengthens the capacity for self-reliance; improper utilization of foreign capital not only abets a country's economic dependence on other countries but may also make its financial burden more onerous.

China now has more than 7,000 enterprises with foreign investment; many of these are already earning very good economic returns. However, under the Sixth 5-Year Plan, the direction in which foreign investment is utilized has been more towards nonproductive projects than productive ones. There are more ordinary projects than strongly technological projects, and many involve duplicative and uncontrolled imports. This not only makes it impossible to raise domestic technology levels but means that the products produced assault the domestic market. Therefore, the introduction of foreign capital must be integrated with the introduction of foreign technology, with priority given to bringing in technology and equipment that will be helpful in expanding export capacity and developing substitutes for imports, in order to ensure that the foreign capital that is brought in can be fully utilized.

In summary, for several decades the Soviet Union and the East European countries have conducted various trials as they instituted their economic system reforms, and they have accumulated a wealth of experience from which we

should learn. Of course, studying the experiences of other countries requires that we adopt a coldly analytical attitude, and we must start from China's own actual circumstances. As comrade Deng Xiaoping has said, "Our modernization must start from China's actual situation. Whether in revolution or in construction, we must carefully study and learn from the experiences of other countries. However, copying other countries' experiences and models will never lead to success. We have a good deal of experience in this area. We must integrate the universal truths of Marxism with China's specific reality, follow our own path, and establish a characteristically Chinese socialism; this is the basic conclusion we reach by summarizing our long historical experience."

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CSO: 4006/802

# ANALYSIS OF POLAND'S FOREIGN DEBT

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese 28 Mar 87 pp 38-41

[Article by Luo Jingfen [5012 4737 1164], State Planning Commission: "The Debt Problem in the Polish Economy"]

[Text] I. Foreign Debt Situation in Poland

Since World War II Poland did, for some time, not use Western loans out of the fear of being controlled by the West. Consequently, by 1970 foreign debt only amounted to \$1 billion. The heavy foreign debt is left over from the decade of the seventies. In the 10 years between 1971 and 1980 Poland had a foreign debt of \$20 billion, all from loans borrowed from the West. (This refers to commercial loans used for domestic economic construction and for improving the people's livelihood. If we include the new debts arising from loans for the purpose of paying off older debts when they become due, then the amount is even greater.) By 1990, aside from the accumulative total of \$25 billion in principal and interest which will have to be paid out, foreign debt will then amount to \$40 billion. Poland has not borrowed money since 1981 for development.

In 1975 the foreign debt balance amounted to \$84 billion. At that time, Poland's foreign debt exceeded the two international guidelines beyond which a country's foreign debt is considered unmanageable. This was because their annual payment of principal and interest on free foreign exchange debts exceeded that year's free foreign exchange income by 25 percent; it reached 27 percent. Also, the free foreign exchange debt margin exceeded that year's safe limit vis-a-vis free foreign exchange income; whereas, it should have been 100 percent, it reached 130 percent. Because these two guidelines for safe foreign loan indebtedness measure the scope of foreign loans borrowed by the state and only provide a signal; they cannot exercise the function of promptly stepping on the brakes. Thus, since 1975 Poland continued to exceed the safe limits of foreign borrowing, until they completely lost control of their foreign debt.

During the late seventies, although the principal and interest due had been paid back in full and on time, new debts had been incurred to repay old ones. This changed the loan structure. The proportion of low-interest, government-

backed loans decreased while commercial floating loans from Western banks increased. The repayment average decreased from 6 to 3 years and the annual interest rate rose to as high as 10 to 18 percent. By the end of 1980 foreign debt increased to \$25 billion.

In the eighties Poland realized its maximum ability to repay, being unable to incur new debts to pay off old ones. In March 1980, in negotiations with the Paris Club (an organization of a Western creditor nations) Poland requested a postponement of the payments of principal and interest. Poland also held negotiations with representatives from 400 private banks and requested an extension of payment of principal and only paid interest. In January 1982 the United States applied economic sanctions against Poland and the West unanimously refused to guarantee loans to the government. The situation only began to ease in 1984 with the reopening of negotiations with the Paris Club. During the first 5 years of the eighties Poland had to make annual interest payments of about \$2.8 billion. Between 1982 and 1984 the exchange recovered from exports to free foreign exchange areas amounted to about \$6 billion. The Poles tightened their belts and repaid about \$1.5 billion of the debt. On top of that there was a favorable noncommercial balance but, in reality, Poland could only repay about \$1.7 billion per year. In 1985 the situation improved somewhat and Poland repaid \$2.2 billion. Year after year Poland failed to repay even the interest so that the foreign debt snowballed. By the end of 1985 it reached \$29.3 billion, which was several billions more than the \$20.7 billion owed by Yugoslavia. By March 1986 it was \$31.2 billion, or a debt of over \$840 per capita. In April 1986 the Chernobyl disaster occurred in the USSR and Western European countries halted imports of agricultural products from Poland. This alone caused Poland to lose foreign trade revenues. Poland lost about \$500 million that year. In 1986 the debt situation worsened.

Upon entering the eighties, foreign debt became a serious obstacle to the recovery and growth of the Polish economy. Between 1980 and 1982 productive construction decreased by 53 percent; imports from free foreign exchange areas decreased by 60 percent; national income fell 25 percent; social production value dropped by 30 percent; and social consumption decreased by 27 percent. Compared to 1980, the people's actual standard of living in 1985 fell by 22 percent. This has consequently led to dissatisfaction among the people and given rise to a "moral crisis" (that is, a crisis of confidence).

Since imports cannot be cut back very much, the exchange from exports cannot increase all at once. In recent years foreign debt has continued to increase and may stop growing and may stabilize only in 1992. At that time the foreign debt will surpass \$50 billion.

When will Poland be able to pay off its foreign debt and what methods will Poland use? These are difficult questions. It appears that this generation will be unable to pay off the debt. There are those who say that Poland has already been reduced to the status of a new colony.

## II. How the Debt Is Borne

After Gierek came to power in 1970, he proposed the "rapid economic development strategy." He wanted to establish a second Poland. (That is, to double economically.) There is a political joke now circulating in Poland: the second Poland is in Chicago. This has a double meaning: on the one hand it refers to the fact that Chicago is a city inhabited by overseas Poles, while on the other hand it refers to the charge that Poland is becoming a capitalist country. How can economic growth be accelerated? At that time foreign borrowing was regarded as a major policy. It was assumed that during the first 5 years of the seventies foreign loans would be used to import more technology and equipment as investments. During the last 5 years Poland would rely on this technology and equipment to expand production, increase exports, and repay its loans. During the early seventies the economy actually flourished. The whole country concentrated on large-scale construction and construction sites were seen everywhere. Consumer goods were abundant and the market supply ample. Between 1971 and 1975, national income grew at an average rate of 9.8 percent a year.

At that time the use of loans for development became "fashionable." Ministers in various ministries had much authority to borrow money and they encouraged and supported enterprises in using loans for development. The plan being implemented at that time for capital construction was called the "open door" plan--all investment projects using foreign loans could be lumped together outside of plans. In reality this is like not really having a plan. In their words: "Having plans is the same as not having plans." In the decade of the seventies the Poles engaged in a total of 1,800 projects and total investments amounted to 7 trillion zlotys, which is equivalent to six or seven times the annual amount of invested in the last several years.

Why did they advocate the open door theory so vigorously? At that time it was believed that first of all this was an excellent opportunity to utilize international capital with nothing to lose. There was a thaw in East-West relations during the seventies and the West was willing to provide credit with relatively low interest rates and favorable terms. The dollar had been devalued further and people were saying that they could gain \$500 million from the foreign exchange devaluation, which would be equivalent to borrowing money without having to pay interest. Second, money borrowed for industrial investments could be repaid with exports produced once the factories were built. This was a fine new approach to accelerating Poland's economic growth. Moreover, it was stipulated that the loans for each project would be "self-repaying." Since loans could lead to exports, whatever amount was borrowed could be earned back in foreign exchange. Thus, there was no fear or danger involved in borrowing more money. Third, Poland has what other Eastern European countries do not: Poland could count on large quantities of natural resources such as anthracite to bring in hard currency. When balancing accounts it was discovered that not only could the foreign debt be paid off, but there would still be some left over. Thus, not only did Poland borrow funds to import grain and feed, to increase varieties of meat, to increase



consumption, and to improve the people's standard of living. The planner per-capita consumption of meat increased from 52 kg in 1970 to 74 kg in 1981. Poland used to be a grain-exporting country. Between 1971 and 1975 it imported 4.1 million tons of grain and feed per year and between 1976 and 1980 it imported 8 million tons annually, which was equivalent to 20 to 40 percent, respectively, of the domestic grain yield. In terms of the loan utilization structure, in the early seventies nearly 50 percent of the money was used to import machinery and equipment and about 25 percent was used to import grain, feed, and raw materials and 25 percent for spare parts. Toward the end of the decade about one-third of the loaned money went toward importing technology and equipment for investments, one-third went toward importing raw materials and spare parts for production, and one-third went toward importing grain and feed for consumption.

Why has Poland been unable to realize this dream of expanding exports and using the funds to repay loans? Specifically, the following several factors are involved:

1. The scope of capital construction was too large. As a result, the time limits for projects were delayed and numerous projects were not completed or put into operation according to schedule. There were no goods that could be exported according to the original plans and the Poles were unable to pay back the money. Take, for example, the Warsaw Tractor Plant. They originally planned to go into operation in 5 years and then use exports of tractors to repay debts. In the end it was completed in 8 years and then went into operation at less than full capacity. This meant that for 3 years they failed to bring in exchange through exports. During the seventies over 1,800 projects were built whereas at present only about 450 have been completed. Plans call for another 500 to be completed during this 5-year plan period (1986-90). The remaining half will only be completed after 1991 or construction will have to be stopped.
2. The domestic demand for some products was too great. Once some projects were put into operation the products could only satisfy the domestic demand and could not be exported. For instance, many chemical fertilizer plants were built but the fertilizer produced all went to the domestic market and was not exported as in the original plan.
3. The Poles underestimated their reliance on imported Western technology and equipment. Once projects built with loans went into operation, they had to import raw materials and spare parts, and when building factories there was no unified balance of the amount imported and the amount of exchange used annually. For instance, the automatic washing machine factory had to import raw materials from abroad. They had a \$100 million loan and had to import \$20 to \$30 million of raw materials and spare parts annually. This was the amount of money they had to spend per year. Moreover, the loan period was short, on the average only 1-2 years, and the interest rates were high. When building the washing machine plant they did not give thorough consideration to this sum of foreign exchange. Some of the raw materials and spare parts

could be produced domestically but loans were needed to construct new factories. These projects often only appeared after the finished product factory and the assembly plant were completed. No arrangements had been made for the required loan.

4. The Poles overestimated their domestic absorption capability. It was revealed that one-third of the technology imported from abroad and was not suitable and one-fourth of equipment was shelved and rendered ineffective.

5. Many products which are restricted by the international market and produced with technology supplied by the West cannot be exported. For example, the ordinary steel produced by the Katowice Steel Mill and the Fiat automobile manufactured in cooperation with Italy cannot break into the Western market.

6. It was not determined what source of foreign exchange could be used to pay off loans in projects which cannot use exports to repay debts.

7. The principle of "self-repayment" has, for the most part, failed. When borrowing money they all said that the project benefits will be great and that once it is in operation there will be a surplus in foreign exchange and there are no risks involved at all. Yet later on, some project loans could not be repaid on time. In the beginning these were considered unique cases and given special handling according to flexible measures and the state assumed responsibility for repayment; later on, a large number of projects were unable to repay loans and entire debts were assumed by the state. It is said that only 150 out of 1,800 projects have been able to implement "self-repayment" of their loans.

Of course, this does not mean there were not any good examples. For instance, loans for mining and processing copper were successful. The productive capacity for copper increased sharply and foreign exchange from copper exports covered the money borrowed.

The basic reason Poland fell into a debt trap and ran up these usurious loans is that at that time it had an inadequate understanding of the complexity, difficulty, and future risks involved in raising foreign loans to develop the national economy. Moreover, the Poles imagined that it would be very easy to borrow funds to import advanced Western technology and equipment and thereby increase their export capacity and be able to carry out self-repayment. They overestimated their actual ability to increase exports. By the end of the seventies, although 60 percent of the equipment in industrial production was imported from the West, there was no obvious expansion in export production or increase in their ability to earn foreign exchange. In 1970, 13 percent of industrial production was devoted to export production and by 1979 this had only increased to 14.9 percent. During the decade of the seventies, beginning in 1972 and for the next 9 years, there was a foreign trade deficit amounting to a total of \$15.9 billion or 63 percent of the total debt for this period. During the first 5 years the deficit was \$6.3 billion and

and during the last 5 years not only did they fail to live up to the original plan and repay the debt owed, on the contrary, the deficit grew to \$9.6 billion. Since 1982, while the Poles have striven to expand exports, they have also greatly cut back imports and in 1983 just about stopped the importation of technology and equipment. Only then did Poland obtain a favorable balance of \$1.6 billion, which dropped to \$1.7 billion in 1985.

It appears that this mistake was not the failure of specific leaders but rather the fault of leadership level policies. Of course, there were those who did hold correct opinions. In 1973 many people criticized the loan policy and the excessive scope of capital construction. However, at the National Conference of Party Delegates held in October of that same year, not only did the Poles fail to take changes in conditions both at home and abroad into account when they slowed the pace of economic development, on the contrary, they increased the investment targets for capital construction for 1974 and 1975. In 1975 the accumulation rate soared to 35.7 percent, which led to an increase in the debt rate later on. At that time Ying-de-li-huo-fu-si-ji [5391 1795 6849 7202 1133 2448 1015] criticized the policies implemented by the government and his correct views were rejected. This man had once served concurrently as deputy premier and chairman of the Planning Commission in the Council of Ministers and then as foreign minister and finance minister. He was later transferred to the post of ambassador to Hungary.

### III. What Lessons Can We Draw From All This?

What should China pay attention to in utilizing foreign capital? We have consulted with Professor Manfred Gorywoda [?], the Polish delegate who participated in the Paris Club negotiations and who is now chairman of the Planning Commission in the Polish Council of Ministers. He responded earnestly: "Borrowing money is no problem, it's paying it back that is difficult. Even with long-term low-interest loans it is still very hard to pay back the principal and interest. When borrowing money it is first of all necessary to consider thoroughly how one is going to repay the loan. Relying on expanding exports to repay the loans is unwise because expanding exports is quite difficult. This is the fundamental problem in utilizing foreign capital. If one fails to take this into account one may land oneself in the predicament that we find ourselves." Specifically, it is necessary to focus on the following several points when utilizing foreign capital:

1. Do not imagine that it is possible to obtain first-rate advanced technology from the West. The West cannot allow our technological level to catch up. It will not transfer to us technology that is competitive.
2. It is necessary to see that projects are completed and put into operation on schedule and to assimilate imported technology within a short period of time. This is not an easy undertaking. In Third World countries they often do things on too large a scale. They set up too many projects and the state

does not have a corresponding and reliable enforcement capability. The result is that they are unable to attain their expected objectives.

3. It is also difficult to ensure that the raw materials and spare parts required for loan projects are domestic products. Poland paid insufficient attention to this problem and during the first 5 years of the seventies imported raw materials and spare parts constituted 33 percent of total imports and rose to 60 percent during the last 5 years.

4. It is not easy to get products into the Western market. Do not count on capitalists letting you buy back products. At most, in 1 or 2 years or a fraction thereof they will find various excuses or technical reasons not to allow you to buy back goods.

5. It is not easy for loan projects to be "self-repaying" and to make capital and interest payments on time. What's more, the loan repayment period and the project's principal repayment period differ. For the most part, the loan repayment period is short and the project principal repayment period is long.

6. One cannot only borrow one kind of currency; it is necessary to borrow a currency "package," (that is, various kinds). Otherwise it is likely one will suffer losses. In Poland it was originally believed that the devaluation of the dollar in the early seventies would lead to a gain of \$500 million, but after the oil crisis the dollar appreciated and it lost \$230 million annually.

When the Poles borrowed money from abroad they considered a few necessary measures. They thought that all they would need to do was to pay attention to the loan safety limit and formulate a "self-repayment" system. With this "double insurance" it would be impossible for any major errors to occur. Thus, they lifted restrictions on borrowing money, which led to their current plight. It seems that what's even more important when utilizing foreign capital is to give fresh consideration to the ability of the state and of units utilizing the loan to put things into effect, that is, their overall abilities to select technology, negotiate technical trade, absorb and master technology, organize project construction, make production arrangements, and manage exports. Without the corresponding and reliable ability to implement such things, not only is it impossible to attain the expected results, on the contrary, there is the danger of falling into a debt trap. Of course, it is still both essential and beneficial for a developing country to have just the right number of industrial projects which are built with borrowed foreign capital and which are actually capable of making repayments.

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## IMPACT OF SPARK PLAN REVIEWED

Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 12, 23 Mar 87 pp 14-16

[Article by Li Shuzhong [2621 2885 1813]: "Preliminary Impact of Spark Plan on Chinese Agriculture"]

[Text] Two years ago, China attracted attention with its proposed "spark plan," which refers to changes in the backward nature of production methods in the countryside and the popularization of S&T in the villages. This has been held to be the first move in furthering rural reforms. The UN Development Research Center characterized China's "spark plans" as a program which would provide the developing nations with significant experience which could be expanded through research to the nations of the Third World.

The newest figures from the Chinese Institute of Agronomy and the Ministry of Agriculture, Animal Husbandry, and Fisheries demonstrate that initial results are now in on more than 2,800 technical projects, while more than 1,200 others are just being implemented.

This is just one part of China's 1985-1990 dissemination of rural "spark plan."

## Equipping Rural Enterprises With Appropriate Technology

The "Spark Plan" were first proposed by the State Science Commission and approved by the State Council in the summer of 1985. The plan required gradual and wholesale equipment of more than 10 million rural enterprises with appropriate technology and improvement of the commodity rate for planting and cultivation.

According to this plan, more than 100 kinds of equipment with integrated technology would be made available to rural enterprises within 10 years; the formidable strength of industries in large and mid-sized cities for batch processes would be drawn upon; 500 model rural technical enterprises would be established which would serve as points for leading overall development; and 10 million young rural intellectuals and grassroots cadres would be trained who would have a mastery of one or two technological applications in their home districts.

These plans were a product of the real needs of the countryside. The reform of the rural Chinese economy would give hundreds of millions of peasants a say in production. They would go beyond traditional farm management to form large numbers of rural enterprises. In 1985, the total number of rural enterprises throughout the nation surpassed 12 million. Most of them had old equipment. Their technology was backward and the quality of their personnel was poor. Based upon statistics, there was only 1 technical worker for every 160 rural enterprises. Meanwhile, the myriad results of scientific research in the cities still awaited application and many S&T personnel still awaited assignment. The people looked anxiously for improvement in their lot and held S&T workers up as "gods of wealth," begging them to go out and lead them in developing production and technology. "Spark plans" were initiated in just this environment.

The state has put up 360 million yuan over the last 2 years in support of "spark plans." Local capital accumulation has reached 1.9 billion yuan. These funds have been used to develop technological application in 10 areas: new modes in the feed industries and for storing and shipping their products; processing technology for preserving freshness at the point of production; technology for the comprehensive use of farm, forestry and local products; development of rural township construction and construction materials; production technology for small-scale mining excavation, extraction, primary processing and manufacturing; broadened utilization of new technology and materials; product lines for heavy industrial production; coordinated regional development; export commodities; and development of small-scale production installation technology and training of installation personnel.

"Spark plans" help to develop local economies; and their impact was felt in official circles throughout the provinces, municipalities, and autonomous regions. Officials high and low in 10 provinces and municipalities such as Sichuan, Jilin, Honan, Hubei, Beijing, Shandong, and Zhejiang gave their active support to technological projects needed in their regions. Shanghai set up areas where spark plans were concentrated to make the most of its considerable S&T capabilities and industrial base, with emphasis on exploitation of coastal resources, developing on its traditional strengths in food processing, and transformation of its household electrical appliance industry. Sichuan took advantage of its hog resources and made advances in establishment of production bases for high-quality lean pork and pork product processing technology. In the northwest, capital and technology-poor Qinghai Province, with feeble markets but a developed animal husbandry industry, put stress on comprehensive utilization and exploitation of beef and mutton--especially in development of combing and production technology for flax [*Linum usitatissimum*]. Henan, the "breadbasket of the central plain", set up a large-area model high-yield grain region using a whole line of integrated technology.

The work of personnel training has gone forward as well over the last 2 years. Training centers have been set up all around the country; and 1.05 million young peasants with intermediate education levels have participated.



## Using the East Wind of Reform to Promote "Sparks"

"Spark Plans" have been driven by the wind of China's reforms. In one swoop, they uprooted the old methods of having the state take full responsibility for the work of popularizing technology in the countryside. They have taken advantage of the favorable environment created by reform of the rural economy and the state S&T structure and led to the adoption of a whole series of new measures, such as the following:

--All projects to be listed as "Spark Plans" must undergo feasibility studies by experts and are no longer started up after nothing more than a simple administrative investigation. Technical projects for rural enterprises to be listed must have a technical institute, scientific research unit, or large or mid-sized enterprise to look to, in order to assure that the project is both advanced and appropriate.

--Some projects are not arranged through administrative channels but through public announcements in newspapers which solicit technical personnel and have the support of the state for loans.

--Capital accumulation channels are expanded. Almost all of the 1.9 billion yuan in funds accumulated at the province, municipal, or county level were one form of loan or private accumulation or another; the amount allocated by local government was very small. Bonds and stocks were issued. Enterprises linked up to accumulate capital. All forms of venture capital investment and leasing systems have been tried.

--Many kinds of technology have been transferred in and out. Shares in technology have been issued. Compensation has been paid for transfer of technical results. There have been technical contracts and markets for information and technology. Technology markets are one such example which have been active everywhere. A total of 87 out of 98 counties and prefectures in Jiangxi have started rural technology markets, resulting in the spread of appropriate technology through a large segment of rural enterprises.

--Human resource exchange agencies have been established. S&T workers have been given incentives to go to work in rural enterprises. At the present time, every area except Xizang has such an agency. Based upon incomplete statistics, almost 2,000 S&T workers have gone into rural enterprises in the last year.

These new methods have provided rather favorable conditions for the implementation of "spark plans." From the overall picture, a number of the more than 4,000 technical development projects already being implemented have been characterized by small investments, rapid results, large returns, and widespread application. The Mudanjiang municipal textile materials factory in Heilongjiang used waste from inferior hemp to make fine hemp, with quality which is up to international standards. Investment in this factory totalled 2.25 million yuan over just 6 months to give rise to a production line which could put out 250 tons of fine hemp per year. This project is already in production and its products sold to foreign businesses. In 1 year it will earn more than \$1 million. Over 1,400 different units and individuals in 24



provinces have already taken to the specialty aquatic products (shellfish, bullfrogs, and tortoises) produced by Hunan's Hanshou County special aquatic products research institute because of their superior economic returns.

Preliminary estimates by experts reveal that once these more than 4,000 projects have been fully implemented, an additional 10 billion yuan of new output value and 2.5 billion yuan of profit will be realized.

#### Song Jian [1345 1696] Offers Welcome to International Cooperation

It is just 2 years since China's "spark plans" have been proposed, and many of the details are still not understood abroad. Still, these plans are attracting attention in a number of countries which are looking for avenues of cooperation. Dr Bernard, the President of the United Nations University, visited China last year for the express purpose of becoming familiar with the "spark plans" situation, and expressed an interest in beginning cooperative research and personnel training as methods of cooperation with China. Such international organizations as the World Bank, EEC, and United Nations financial system have also proposed cooperation with China in pushing forward with "spark plans."

Chairman Song Jian of the State Science and Technology Commission has noted that China has rapidly expanded its economic and technical exchanges with other nations in recent years. Nevertheless, international exchanges for the purpose of rejuvenating local and rural economies are still few and far between. At the same time, Japan, Western Europe, and a number of countries in Eastern Europe have accumulated a wealth of valuable experience in developing a diversity of operational modes in their rural economies which could be used for comparison, especially in the area of technology, equipment, and organizational methods for services before production and processing and sales afterward--all of which would be welcome in China and be given preferential treatment.

China is currently preparing to import 10 sets of equipment used in the processing of farm products and byproducts from countries of Eastern Europe. It is making contacts with the FRG, the United States, Italy, and New Zealand with the intention of importing certain pieces of key technology and equipment which can really improve the technical capabilities of rural enterprises.

#### This Year: Giving Form to Local Economic Strengths

At the present time, "spark plans" are just in their beginning stages. In order to bring them up to a higher stage, the State Science and Technology Commission has already issued this year's outline for implementation of "spark plans," which focus on development of a number of priority industries and priority regions which will give form to local economic strengths.

First is implementation of development of technology for priority industries. This generally comprises technology for high quality, high yield for famous local fruits, new kinds of saltwater and freshwater fish, and poultry cultivation and processing, comprehensive utilization of typical and distinctive local vegetables, and development of construction materials.

There are 12 projects in all. These development projects all focus on strengths of local resources and outstanding local features. For example, citrus fruits are produced in Fujian, Zhejiang, Anhui, Jiangxi, and regions of Hunan, Hubei, and Sichuan.

The focus is on development of new types of citrus fruits and high-quality, high-yield technology in order to satisfy demand for new kinds of citrus. These priority industries are mostly those which earn money now in rural areas and in which technology is welcomed by the farmer.

Second is gradual improvement of distribution, making the most of the advantages found in large and mid-sized cities in the areas of technology, personnel, equipment, and information, and establishment of 20 "spark plan technology concentration regions" which will provide small-scale equipment for rural enterprises, train personnel, and develop advanced export commodities which earn foreign exchange. Stress will be on establishment of 20 foothill and mountain region comprehensive technology development test sites. These regions are among the poorest in China's countryside. It is planned to use local resources, clarify product and commodity strengths, give life to the economy, and bring about rises in peasant income. Seven coastal and three island test sites for development will be set up in China. In this way, the coastal, urban and suburban areas, flatland, foothill, and mountain villages can start up at the same time in different places so that after a certain number of years the sparks will grow into a great blaze.

Third, 15 major facilities such as integrated feed processing, refrigerated storage and shipment, fruit and seed processing, stone quarrying and processing will be developed in order to improve rural production capabilities in these areas.

Fourth, training of technical and management personnel will be strengthened. Implementation of "spark plans" will be coordinated with dispersal and training of 200,000 key technical and management personnel. This will be especially stressed in those regions slated for priority development, where institutions of higher education and scientific research units will be given charge for training key technical personnel for rural enterprises.

According to reports, the state has this year begun to spread technology and information about "spark plans" through satellite television programs, and will also be setting up "spark plan" development funds in support of priority technology development projects.

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CSO: 4006/554

## YUNNAN AGRICULTURE DEVELOPMENT STRATEGY

Kunming YUNNAN RIBAO in Chinese 20 Mar 87 p 3

[Article by Hu Yongyuan [5170 2717 0955]: "An Approach to Yunnan's Agricultural Development Strategy"]

[Text] Since ancient times, agriculture has been the foundation of China and agricultural conditions have had an impact on the overall stage of the national economy. This is even more so in Yunnan where the speed of agricultural development has a direct impact on the province-wide rate of economic circulation and pace of social progress. Yunnan's agricultural population constitutes nearly 90 percent of the total population of the province, and more than 80 percent of raw materials for light industry come from agriculture. Until 1985, 50 percent of the province's income came from agriculture, and the gross value of agricultural output in Yunnan continued to account for 41 percent of its GVIAO.

For the past few years, due to the strength of policy, climatic factors, and the rapid development of agriculture, Yunnan has had bumper grain harvests for many years running. After this succession of bumper grain harvests, conditions emerged where grain growing areas and the enthusiasm of farmers to plant grain dropped off, adding 2 consecutive years of disaster and reduced grain output. The drop in production made us realize that the agricultural and grain issue is still the weakest link and greatest restrictive factor in Yunnan's economic development. For this reason, we need to conscientiously sum up the historical positive and negative experiences in Yunnan's agricultural development since the founding of the nation, regain an understanding of the current agricultural situation and its problems, become more deeply involved in systematically studying strategic ideology and ways of dealing with Yunnan's agriculture, and propose a plan to be implemented in stages by the separate administrative levels in separate regions. This issue not only requires serious consideration and study by leadership at all levels throughout the province. It is also our own inescapable responsibility as scientific researchers to deal with this matter.

I am of the opinion that Yunnan's agriculture is backward first of all because its ideology is backward and, likewise, that the Yunnan masses are poor because they are theoretically impoverished. Proceeding from this actual condition, we must explore a new kind of thinking and establish a set of new

theories to develop backward areas in our study of agricultural strategy. Studying Yunnan's agriculture requires that we fully see the favorable conditions and the advanced productive forces, as well as the restrictive factors, the great quantity of primitive factors, and the backward productive forces that still play a decisive role in agricultural development. As for the unfavorable conditions and the backward factors that we cannot avoid, the birth of a new ideology will emerge only after we have made a thorough study of the restrictive factors, and only after we have a sound strategy for prescribing the right remedy for the illness and deal with the situation by using novel solutions. Herein lies the vitality of a strategy for agricultural development.

By choosing a path for agricultural development through studying how to overcome restrictive factors, analyzing and thoroughly studying various usable resources, and studying the best structural model for agricultural industry, Yunnan's agriculture will undoubtedly be regarded as a component part of the national agriculture and a main body of study for the economy of the entire province. To the best of our ability, we must carry out open research and begin to link our needs to the possibilities, our natural resources to industrial technology, and production to the market.

Based on what we discussed above, Yunnan's agricultural development strategy consists of two parts: part one focuses on basic agriculture, that is, agriculture that produces grain, meat, cooking oil, vegetables, and fruit that comprise the basic food needs of the people of the province. According to the levels of consumption and the structure in different historical periods, we must study the production scale and the possibility of whether there can be a balance. This part is not necessarily that of our best production but it reassures the people, regulates the structure, and builds a material base for a superior agricultural industry and is also a basic framework for Yunnan's agriculture. The other part is the study of the development and utilization of natural resources for the dominant agricultural industry. It is a commodity agriculture because of the conditions of basic agriculture, and it transforms the speed and scale of its development by means of basic agriculture. The relationship existing between them is closely related and mutually dependent. If there is not a solid basic agriculture, it is impossible to have a flourishing dominant agricultural industry. In the past few years, the rapid development of tobacco, sugar, tea, and rubber cannot be separated from the yearly bumper harvests of grain. If grain as the basic means of subsistence is not ensured, it is bound to lead to a large-scale diverting of the labor force and natural resources to grain, thereby creating the inverse phenomena of natural resource distribution, where the dominant agricultural industry will also lose its advantageous position.

In order to mutually coordinate the studies of basic agriculture and the dominant agricultural industry, we must first, on the basis of quantitative research, carry out a quantitative analysis and establish several input-output models to enable natural resources, the labor force, funds, and materials to reach a harmonious balance that gives priority to meeting basic agricultural needs, with limited supplies of materials and technology. Afterward, we must determine the development scale of the dominant agricultural industry. With

particular regard to the inaccessibility of Yunnan, in considering the issue from the point of view of the entire province, we must, at least for the near future, give priority to developing a set of substantial, yet feasible ways to develop basic agriculture. This does not mean, however, that we are advocating a return to a self-sufficient society of small-scale farming by individual owners. This is because, although the supplies of the basic means of subsistence within the scope of the entire province or large areas may appear to be self-sufficient, the various smaller areas and mountains and plateaus carry out production distribution according to individual conditions and the principle of best advantageous use, and a clear division of labor exists.

This is in essence a kind of commodities agriculture on a small scale. It conforms with the ecological needs and social and economic characteristics of Yunnan.

What path will Yunnan's agriculture take? Whether it takes the traditional agricultural path or that of "petroleum" agriculture, the high input-output path or that of cyclical, continuously expanded gains with more appropriate input, this is a matter that the study of agricultural strategy must seriously consider.

In accordance with the characteristics of the many levels of Yunnan's agricultural productive forces, the strategy for study that we want to pursue is one that assimilates the strengths and avoids the weaknesses of each administrative level of the productive forces, and takes the low input-high output path that yields numerous beneficial results. At the present time, as if awakening from a dream, the path of "ecological" agriculture is proposed after having endured the untold suffering of "petroleum agriculture". Many nations who are on the "ecological" agriculture path have already achieved enormous success. This path possesses enormous vitality because it assimilates the high-output advantages of the cyclical rests between plantings of primitive agriculture, the natural cycles and intensive cultivation of traditional agriculture, and the complex effects and high technology of "petroleum" agriculture; it avoids shortcomings like the destruction of natural resources of primitive agriculture, the slowness of traditional agriculture, the high input of "petroleum" agriculture, and the high degree of pollution; and coordinates the relationships between the society, the economy, and the environment. For these reasons, international scientific conferences have thoroughly discussed the issue of "ecological" agriculture many times. Yunnan belongs to a semitropical region and its biological productive force is both vigorous yet frail. It is rich in natural resources, but the actual strength of its economy is lacking. These characteristics illustrate that Yunnan is most suited for the "ecological" agricultural path. Yunnan, by having the conditions to produce the natural ecological structures and to achieve a fully rational utilization of its natural resources without spending a single cent, can enable its natural capability to be ultimately transformed into an economic capability. In consideration of this, we must first conduct experiments by setting up "ecological" households, villages, and townships that have the proper conditions, and afterward progressively popularize the plan.

To sum up, it appears completely imperative and indispensable that Yunnan, in accordance with its own characteristics, should extensively adopt the strong points of the agricultural productive forces of each administrative level and explore new theories on agricultural development for the backward areas.

## BRIEFS

TOBACCO PRICES READJUSTED IN YUNNAN--According to the Yunnan Commodity Price Commission and tobacco companies higher prices for high-grade, flue-cured tobacco will be put into effect beginning this year when new tobacco appears on the market to encourage growers to produce high-quality leaf tobacco. The gist of this new measure is as follows: Yunnan-wide purchasing prices of flue-cured tobacco will be divided into two regions. In the first region, which includes Kunming, Dali, Yuxi, Honghe, Qujing, and Dongchuan, the price will be 92 yuan per 50 kg of the standard product (fourth-grade, intermediate). In the second region, that includes Zhaotong and other tobacco producing areas, the standard product price will be 91 yuan for 50 kg. After the adjustment higher purchasing prices will be set for high-quality tobacco and the purchasing differential among tobacco of different grades will be greater. Last year the purchasing price of the top grade of high-quality tobacco was 248 yuan for 50 kg. This year, the purchasing price will be adjusted to 286 yuan in the first price region. The purchasing price for the sixth grade of low-quality tobacco was 43 yuan for kg last year, but this year after the purchasing price adjustment, it will be 36 yuan in the first price region. The new prices have already been approved by the State Council. Relevant departments in some areas have already publicized the tobacco price adjustment conditions to tobacco growers and aroused the enthusiasm of the tobacco growers to plant more and better tobacco. ["This Year Yunnan Will Set Higher Prices for High Quality Tobacco; After Price Adjustments, Price Differences of Superior Quality Flue-Cured Tobacco Will Widen"] [Text] [Kunming YUNNAN RIBAO in Chinese 19 Mar 87 p 1] /13194

CSO: 4006/524



SEPARATION OF DEFENSE STRUCTURE ADMINISTRATION, COMMAND

Beijing JIEFANGJUN BAO in Chinese 6 Mar 87 p 3

[Article by Zhu Baogang [2612 1405 0474]: "A Trend in the Change of the National Defense System"]

[Text] Reform of the national defense system is an important part of the national defense development strategy. Nowadays, all armed forces that want to be strong pay a great deal of attention to following closely the pace of the times and changing their own mechanisms. When studying our national defense development strategy, we need to take into consideration the changes in the national defense systems of foreign countries.

Systems theory maintains that the differences in a system's ability to change makes for differences in its ability to use input information, but the strength of the system's ability to change is mainly decided by the system's structure. If a national defense system is to have a very strong ability to decompose, select, and combine input information, it must have an optimum structure. Centering on this question, many countries have made bold attempts to reform their own national defense systems. These attempts seem to have one common characteristic: abandoning the single-track system, which had been followed for many years, of combining military administration (maintaining armed forces) and military command (using armed forces), and adopting the dual-track system of separately establishing military administration and military command. The military management system means the system to maintain armed forces by the unified control of administration and management, unit building, combat readiness training, military service mobilization, weapons procurement, logistics, and other matters; the military command system means the system that exercises unified control over operations. The separate establishment of military administration and military command means distinguishing the maintenance and the use of armed forces to form two systems. For example in the U.S. military administration system, the President and the secretary of defense exercise unified control of matters relating to the maintenance of the armed forces through the departments of the armed services and through their staff departments; in the U.S. military command system, the President and the secretary of defense command, through meetings of the Joint Chiefs of Staff, each combined general headquarters, each special headquarters, and even operational units. After World War II, the United States, worried about sluggishness in decision making and loss of



control in macro guidance, in 1958 abolished the operational command authority of the armed service departments and formed the dual-track system for maintenance and use of its armed forces, which has lasted until today. This system gives the military administration and military command systems a clear division of work. The military administration system can concentrate its energy on the modernization of the armed forces; the operational system can extricate itself from a large number of administrative matters, thereby greatly improving the efficiency of command.

From a look at the path taken for modernization of the armed forces of various countries in the world, the adoption of the dual-track system of separate establishments for military administration and military command has been somewhat helpful for the strengthening of national defense construction and the guiding of modernized warfare. Particularly in a period of peace, besides the need to cope with a war that could break out, the armed forces have many kinds of missions, and they need to concentrate their energy on their own development and construction. Precisely for this reason, Britain, Italy, Sweden, and Japan have in succession imitated this pattern. In 1985, based on the experience of the Malvinas Islands War, the British armed forces made the "biggest reorganization in 20 years" of their command organizations. The command authority of the staff department of each armed service was transferred to the national defense staff department, making the chiefs of staff of the service arms only responsible for administration and leadership, thereby putting the national defense system completely into the dual-track system.

It should be pointed out that in this national defense system of separate establishments for military administration and military command, there exist many abuses. The main ones are: the armed services give very little consideration to operational questions, and thus the relationship between unit building and operational research is not tight; between the military administration and military command systems, and among the armed services, contradictions and disputes easily occur; and in each system's organizations and personnel setups, as well as task distribution, the existing phenomenon of duplication has not been completely overcome.

Another characteristic of the reform of the national defense system by foreign armed forces is the determination of rational command ranges. Based on the span theory and rank theory of cybernetics, the basic command ranges are stipulated. The national defense department and joint chiefs of staff of various countries only control the armed services and do not directly command them. Thus, the command range of a general headquarters is very limited. Thus it fairly well avoids the drawback in which, because there are fairly many microstates in the object of the system's control, the degree of the system's unfixed nature is fairly low, its entropic value is fairly high, and its degree of order is adversely affected.

Through some common points in the modernization of the armed forces of various countries in the world nowadays, we see that, to win victory on a future "hot battlefield," the military men of various countries are working hard to cast the frame of a national defense structure suited to themselves, and are regarding it as an important project for seizing superiority on the "quiet

battlefield." When completing these national defense structures, each with its distinguishing features, people discover that the building of armed forces has its own laws and that it is necessary to unify the views of their common nature and their individual nature to grasp them.

There has now been a strategic change in the guiding ideology for building the PLA, and, without a doubt, China's national defense system should adapt to this change. There is no denying the fact that a national defense system with separate establishments for military administration and military command, as well as certain other practices in the reform by foreign armed forces of the national defense system, really have many advantages. However, at the same time there also exist some disadvantages. In particular, China's strategic policy, military thinking, military traditions, physical geography, and ideology are poles apart from those of Western countries. Thus, it obviously won't do for us to copy mechanically their practices with regard to a national defense system. The question we need to study is: in the process of making foreign things serve China in China's national defense system, ultimately, how are we to divide up the work and control a greater range so as to better conform to China's reality.

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CSO: 4005/604

APPLYING MILITARY TECHNOLOGY TO NATIONAL DEFENSE ECONOMICS

Beijing JIEFANGJUN BAO in Chinese 13 Mar 87 p 3

[Article by Ye Lu [0673 6424]: "Military High Technologies and National Defense Economics"]

[Text] The national defense economy is an indivisible, organic component part of the state economy. Its development is conditioned by the state of development of the state economy, and conversely it affects the development of the state economy.

The development of a socialist state economy demands that there be a good development of the socialist national defense economy, namely, that the national defense economy be of the proliferation type. Under the conditions of opening up and reforming the development of China's national defense economy, it is perfectly possible to change in the national defense economy the past situation in which there was consumption and funds outlays that could not be compensated. To achieve this goal, a very important issue is to make use of the opportunity now placed before us.

This opportunity is that numerous military high technologies should be produced for the needs of military applications in the eighties as well as the future. They will have an extremely large effect on the development in the future of the national defense economy and the national economy. Enhancing the research on and development of military high technologies is a grand strategy for promoting the proliferation-type development of the national defense economy.

Military high technologies include military microelectronic technology, military information technology, military artificial intelligence and new-generation computer technology, military spaceflight engineering technology, military new energy resources and new materials technology, military biological engineering technology, and military software engineering technology. That military high technologies are able to produce good effects on the development of the national defense economy is because they have 10 innate major characteristics, which are:

**Increased Efficiency.** The integration of military high technologies with military applied systems will clearly cause a rise in the efficiency of the effect of weapons and equipment or military forces.

**Permeability.** The application of military high technologies spreads to the entire military domain, and can swiftly change to permeating nearly all of the civilian domain.

**Trail Blazing Nature.** Military high technologies are produced to meet the needs of the constant developments in the military domain. They will support the trail-blazing activities in the military domain. In scientific and technological results, they blaze new trails quickly, have a short life period, and their price drops sharply.

**Intellectual Nature.** With various kinds of high-level knowledge and theory as the basis, the further merger of military high technologies with knowledge will promote the development of scientific theoretical research.

**Competitiveness.** All countries of the world are looking at the development of military high technologies. In succession, out of concern for future needs, various countries have invested huge sums to support this development in competition for the leading position. The competitiveness of military high technologies is extremely prominent.

**Strategic Nature.** Military high technologies reflect the actual strength of the state economy and the national defense economy, and it is a major strategic decision of the state to develop them.

**Riskiness.** Military high technologies are in the forward position of various high technologies, and they possess clearly advanced research characteristics. Therefore, their research and development are quite risky.

**Intelligence.** The goal in developing military high technologies is to constantly raise the degree of automation and intelligence of weapons and equipment. Injecting the factor of "intelligence" into weapons and equipment will cause a fundamental change in the appearance of future warfare.

**Practicality.** The development of military high technologies is fast, and the real-time application of their staged results can have an enormous effect on military results. However, because their life period is not long, we need to swiftly spread and apply them in order to get actual results. If we do not, the results of the old high technologies will be very quickly superseded by the results of the new technologies.

**Selectivity.** The decision as to what kind of high technology, in the final analysis, is appropriate for research should be decided by looking at the different needs of military users. We may also select which military departments to give priority to in the use of already achieved high technology results.

The proliferation effect of military high technologies on the national defense economy is closely interrelated with the open structure of the national defense economic system. China's modern national defense economy is an open-type megasystem in the bigger megastructure of the modern state economy. In the national defense economic megasystem, a trend of development toward benign proliferation should be formed, and we must first of all give consideration to the situation in which the state economy develops with benign proliferation. At the same time, we must give consideration to the national defense economy and to the economies of other departments in the state economy, such as the coordination role of the industrial economy and the agricultural economy. In addition, we need to give consideration to the fact that, within the national defense economy, there exist countless enterprises, military user, and scientific research organizations that impel it to sustained production and proliferation. In comparison with the national defense economic megastructure, they can be regarded as the cells for the changes in the development of basic-level units, and in the end they cause the changes in the development of the megasystem that is the national defense economy.

From a look at the course of historical developments, we see that China's state economy and national defense economy have gone through a process of change from a closed system to an open system. They also form a set of rules and regulations and a system of organization suited to a closed system, as well as some corresponding closed concepts, modes of thinking, psychological states and habits. Under the conditions in which the state economy and the national defense economy were closed systems, the role of high technologies in producing benign effects on them was extremely limited. The reason is that in a closed system it is very difficult for the economic results and social results produced by high technologies to play their role. Also, an extremely high price must be paid to research and develop high technology results in a closed system. In addition, it is quite difficult for a closed system to absorb high technology results outside the system or to transfer abroad high technology results. Channels are blocked and standards are different, so that between one system and another, they are mutually incompatible, and difficult to merge with each other and to coordinate for development.

In doing research on the effect of the proliferation role of military high technologies on the national defense economy, the scientific methodologies of systems theory, dissipated structure theory, and mutation theory should be adopted. In accordance with the abovementioned three scientific methodologies, from research on China's state economy--this megasystem--and the coordinating role among the many submegasystems included in it, it can be discovered that the national defense economy must contact and coordinate with other submegasystems, and first of all start with high-level content and proceed level by level. For example, we must consider and build up a situation of benign development in the national defense economy, first giving consideration to the situation in the development of the peripheral environments. The peripheral environments are some systems that open up to the international environment, and the national defense economy should also be a system that opens up to the international environment. Second, there also exists the question of the mutual effect and coordinated development of the national defense economy with other economic systems, for example, the industrial economy and the agricultural economy. In the state economy--this

one megasystem--only by depending on the role of mutual integration and mutual coordination among the various subsystems, can it go from the disordered state in mutually affecting and mutually excluding to an ordered state, can it in the end cause the formation of a benign cycle in the various departments so that it will be possible for the state economy to develop constantly.

The national defense economy is a submegasystem of the national economy, and is also an open ordered structure. It has its own capability for organization, and through internal changes it can reach a stable "destination point" or "destination link." The requirements for this are that there be, through military-civilian compatibility and reform, a control system for the national defense economy; at the same time, there must be measured research, development, and application of military high technologies. The principle of military-civilian compatibility is a fundamental principle that promotes China's national defense economy to form proliferation-type economies. The reform of the control system for the national defense economy can invigorate the development. The measured research, development, and application of military high technologies will vigorously promote the taking of the road of proliferation by the national defense economy.

When doing research on the national defense economy's development of economic coordination with other departments in the state economy, we must give consideration to the structure of mutation, and to the factors causing mutations. If China in the year 2000 wants to stand on its own feet among the world's nations in a powerful and prosperous posture, it must have a powerful economy and technology, and, therefore, it also must have a powerful national defense economy and technology as the basis. If we neglect the development of the national defense economy, or, because we do not get the funds necessary for the development of the national defense economy, we do not get actual application of the important military high technologies that are needed, then there could be produced a qualitative change of a leaping nature in the entire national defense economy, a swift transformation toward bad consequences. To prevent this swift transformation toward bad consequences and to promote a change in the direction toward proliferation, we must put to use the way of setting up the necessary mathematical models, and describe by direct perception the area near the critical mutation point, and the pattern of mutation in the entire national defense economy caused by minute changes in external conditions.

The role played by military high technology in the proliferation-type development of the national defense economy is mainly reflected in: the original closed economy is gradually changing into an open economy; the proliferation rate of the national defense economy has been accelerated; in the course of proliferation, the national defense economy is developing in coordination with the economies of other departments of the state economy; and the internal microstructure of the national defense economy is tending more toward rationality.

The content of military high technologies are extremely extensive, and in it there are three aspects that play an especially important role in the benign development of the national defense economy. These three aspects are: military artificial intelligence and the new generation of computer

technology; military software engineering technology; and military bioengineering technology.

Here I will stress speaking about military artificial intelligence and new-generation computer technology. This is one of the technologies that will play an extremely important promotional role during the development of the national defense economy in the future. Because it is a technology that uses computers to simulate military personnel's study and reasoning, searches for the solution of problems, and assists in the decision making for military action, and because it gives military computers the ability to listen, speak, write, and draw, it has vast prospects for military application. Because of this application, when this high technology affects the development of the national defense economy toward a proliferation-type economy, it will be in a unique and important position. It will greatly promote the rate and range of proliferation in the national defense economy, and will provide the necessary conditions for the benign development of the state economy.

As for the influence of the development of military high technologies on the development of the national defense economy, there is much work in qualitative analysis remaining to be done in the future. The work of quantitative analysis must be done by methods in accordance with dissipated structure theory, coordination theory, and mutation theory, and the necessary mathematical models must be set up. Truly exploring the key mechanisms and ways that military high technologies affect the national defense economy is of major significance for the development of China's national defense economy in the 21st century.

9727

CSO: 4005/605



IMPROVEMENTS, REFORMS IN RESERVE DIVISIONS

Nanjing DONGHAI MINBING [EAST SEA MILITIA] in Chinese No 3, 15 Mar 87 p 27

[Article by Dong Ze [5516 3419]]

[Text] Chuxian County Reserve Division--Getting a Tight Grip on Unit Capital Construction

Proceeding from reality, the Chuxian County Reserve Division in Anhui has gotten a tight grip on unit capital construction, taking a step forward in regularizing and standardizing the units. First, it built up reference materials by setting up division and regiment operational reference rooms, purchasing combat-readiness data boxes, and setting in order and perfecting a little over 1,000 pieces of reference materials of various types. Second, it has built a gun barrel firing building and some vehicle and artillery parks, thereby perfecting the artillery training base. Third, it has made a technical survey and service of all weapons and equipment in the division. Fourth, it has joined with the military subdistrict to build a jute mill, and initial results have been achieved, increasing income by more than 10,000 yuan. Fifth, it has perfected the operations duty, work tasks, integrated conference, requests for instructions and reporting, data management, and inspection and assessment systems, making clear the work duties of the division and regiment organizations and the cadres' system of personal responsibility, so that in unit building there are rules to follow.

Yangzhou Reserve Division--Adopting Diversified Forms of Training

The Yangzhou Reserve Division in Jiangsu has made good education and training of units an important task in consolidating and improving reserve units.

To insure the personnel, time, content, and results of training, it reduced, to the greatest extent possible, the effect of production and work on training. For the training it adopted the forms of correspondence school training, short-term training, and specialized concentrated training, so that all active duty cadres in the division and two-thirds of the reserve cadres in the division took part in studies and the extent of those taking training reached 85 percent. At the same time, 4 battalions and 33 companies formed an organizational system for rotational training. In tests, a mark of "good" or better was gotten in 97 percent of the companies' common topics and in 70 percent of the companies' technical and tactical topics.

On this basis the division organized more than 300 active duty and reserve organization cadres to conduct comprehensive drills in which the division and its regiments used communication instruments, thereby effecting a marked improvement in everybody's military quality.

#### Nanchang Reserve Division--Striving To Improve Troop Quality

The Nanchang Reserve Division in Jiangxi pays full attention to organizing and carrying out work to improve troop quality. Last year, the division evenly matched its active duty cadres with a senior middle school education or higher. All reserve cadres in the division were tested, adjusted, and evenly matched to form city- and county-level reserve cadres' army-locality joint-management groups; an integrated administration system was set up; and experiments at selected points were conducted on bringing reserve cadres into the local system of cadres' personal responsibility. The division's troops were integrated with the militia's reorganization and readjustment, so that the proportion of demobilized armymen, core members of the militia, and CPC and CYL members in the division was raised fairly high and the needs of unit building were fairly well met.

9727

CSO: 4005/756

REPORT ISSUED ON INSPECTION OF FINANCES

Beijing JIEFANGJUN BAO in Chinese 18 Mar 87 p 1

[Report by Shen Wen [3476 2429]: "Results of Big Inspection To Enhance Financial and Economic Discipline; Sources of Income Broadened and Expenditures Reduced To Manage and Use Well All Funds"]

[Text] Beijing, 17 March--The big all-PLA inspection of financial and economic discipline has attained its anticipated goals, thus satisfactorily fulfilling its task. Today the Central Military Commission commented on and passed on the reports of the leadership groups for the big all-PLA inspection of financial and economic discipline, and issued a notice to the entire PLA. The notice called on party committees at all levels to sum up conscientiously experiences and lessons, to strengthen conscientiously their leadership over financial work, and to enhance and develop the results of the big all-PLA inspection of financial and economic discipline.

This 8-month inspection was carried out from top to bottom, and by integrating the higher and lower levels, under the leadership of the Central Military Commission and party committees at all levels. Last year, 30,000 persons were drawn out of the PLA to form more than 8,000 inspection teams for inspecting all units in the PLA at the regiment level and above. Through the inspection, the situation in enforcing financial and economic discipline throughout the PLA was ascertained, and some problems of violating law and discipline were investigated and dealt with. Experiences and lessons were summed up and measures for progress were formulated. Thus the great number of cadres and masses received a vivid, profound education on observing discipline and law. The inspection produced a positive effect for promoting a turn for the better in the party spirit of the armed forces, for correcting unhealthy tendencies, and for enhancing unit building.

The Central Military Commission said the entire PLA must uphold the policy of increasing production and practicing economy, increasing income and economizing on expenditures, broadening sources of income and reducing expenditures, and building up the PLA through thrift and hard work; display the glorious tradition of arduous struggle; oppose practicing extravagance and waste, going in for ostentation and extravagance, comparing luxuries, using public funds for tourism, entertaining guests and giving presents, and other unhealthy tendencies; conscientiously adopt effective measures for curtailing

outlays for public affairs and operating expenses; earnestly control and use well all funds; stress practical results; and by all ways and means insure that units are supplied. All outlays of funds must be handled according to rules and regulations; cases of violations of financial and economic rules and regulations and discipline must be timely investigated and dealt with, and there must not be overleniency.

9727

CSO: 4005/605

AIRBORNE TRAINING BRIGADE REALIZES SAVINGS OF 32 PERCENT

Beijing JIEFANGJUN BAO in Chinese 14 Mar 87 p 1

[Report by Zhou Bin [6650 2430]: "In Preparing To Construct Facilities a Certain Training Brigade Makes Careful Calculations and Does Strict Budgeting"]

[Text] A set of fairly standard teaching facilities, which were newly built by a certain airborne training brigade, are having a positive effect on the education and training of recruits. At the beginning of March, Wu [2976], commander of this brigade, told this writer: During preparations for the construction of these teaching facilities, the great number of cadres and fighters waged arduous struggle and made careful calculations and did strict budgeting. Through the measures of innovating and tapping potential, they saved a little over 400,000 yuan, which was 32 percent of the needed funds.

The training brigade is charged with the mission of training several thousand recruits and squad leader backbone elements for the airborne force. During the building of teaching facilities for the various service arms, it was faced with the difficulty of insufficient funds and equipment. It mobilized the relevant departments to make inventories in order to tap their potential, and to repair and utilize old or discarded things, thereby saving 320,000 yuan. To resolve the contradiction of insufficient teaching sites, it rebuilt messhalls, warehouses, and living quarters that were surplus after the reorganization. After the rebuilding, there were more than 10,000 sq m of teaching facilities. The infantry teaching and research section had originally been prepared to purchase a set of teaching boards for infantry firing theory, and needed 5,000 yuan for this purpose. At this time a warehouse storekeeper discovered many old teaching boards. Together with other comrades, he reconstituted and repainted them, spending a little over 1,300 yuan, thereby successfully remaking them into a new set of teaching boards. The brigade also made full use of the technical strength of the instructors: after being remade, 4 old switchboards were given to the telephone operator teaching and research section for its use; 15 scrapped addressing machines and instruments were renovated, and they were used for simulation teaching and for experiments.

9727

CSO: 4005/606

AAA BRIGADE REFORMS DISTRIBUTION OF CLOTHING, EQUIPMENT

Beijing JIEFANGJUN BAO in Chinese 22 Mar 87 p 1

[Report by Yuan Guowen [5373 0948 2429] and Qin Jinfu [4440 6651 4395]: "One-Time Issuance of Summer and Winter Clothing and Equipment Completed"]

[Text] Beijing, 21 March--The Military Supplies Department of the PLA General Logistics Department has decided that, from this year on, the issuance of clothing and equipment will be changed from twice a year to once a year. Today the Beijing Military Region popularized to all its units the experience obtained by a certain antiaircraft artillery brigade, which was an experimental point in this reform.

The experiment in the reform of the system of issuing clothing and equipment was carried out by the antiaircraft artillery brigade under the guidance of the Military Supplies Department of the General Logistics Department and the Military Supplies Department of the Beijing Military Region. Practice has proven that there are many advantages and few disadvantages in this reform. According to statistics, it generally took the brigade 2 to 3 months' time every year to issue summer and winter clothing and equipment. An expenditure of nearly 2,000 yuan in travel expenses was needed for the at least 8 trips that relevant personnel had to take to requisition and exchange clothing. This year the issuance of summer and winter clothing and equipment was completed in the period from the 9th to the 18th of this month, and the completion rate for clothing, headgear, and footgear was respectively 99, 98.5, and 100 percent; the expenditure for travel expenses was 720 yuan, a drop of 62.5 percent as compared with that of last year. The units reported that in the past, when twice a year new clothing and equipment were issued and old clothing and equipment taken back, this was done at the busiest season of the year for training, construction, and production; after the reform, time was saved, which was advantageous to the completion of training and other tasks. The new fighters particularly acclaim this reform, which solves the difficult problem of having no uniform to wear when clothing is exchanged or washed. Commanders of the military supplies departments said that the reform reduces the organizations' workload, so that they have fairly much time and energy for getting a good grip on their own building and on basic-level materiel management.

Comrades of the relevant department of the General Logistics Department revealed that the Lanzhou and Shenyang military regions also obtained satisfactory results in experimental-point work on similar reforms. According to my understanding, the problem existing now is that, with the period of time for the issuance of clothing and equipment being concentrated quantitatively, there are higher demands than in the past on safekeeping and transporting. However, comrades from the PLA General Headquarters down to the basic level who have participated in reform experimental-point work think that, provided proper measures are taken, this problem will not be hard to solve.

9727

CSO: 4005/604



CHENGDU MR ABOLISHES 109 EXCESS, TEMPORARY ORGANIZATIONS

Beijing JIEFANGJUN BAO in Chinese 14 Mar 87 p 1

[Report by Tan Zhenya [6223 2182 0068] and Wang Genquan [3769 2704 0356]: "Chengdu Military Region Abolishes 109 Outside-Establishment Units and Temporary Organizations"]

[Text] Chengdu, 13 March--Yesterday the Chengdu Military Region made the decision to abolish 13 duplicative, nominal organizations, including military region organization excess cadre offices, self-study university offices, formal schooling record offices, afforestation offices, environmental protection offices, reexamination offices, and policy implementation offices. This was the second group of nonestablishment units to be sorted out this year. As of now, the military region has abolished 109 overestablishment units and temporary organizations, and has cut a little over 4,700 personnel.

During the Chengdu Military Region's implementation of the spirit of the enlarged session of the Military Commission, in order to stabilize the new establishment and system of organization and to consolidate the results of streamlining and reorganization, the leading comrades of the military region focused on this problem: the units inside the establishment had been streamlined but the units outside the establishment had increased, the personnel of units inside the establishment had been streamlined but the personnel of units outside the establishment and of temporary organizations had inflated. Among the professional departments of the organizations doing research and analysis, they formulated "10 rules for consolidating the results of reforming the system and of streamlining and reorganization." They said all units must strictly implement the new establishment, and must not, for any reason, again set up nonestablishment units and temporary organizations. They reiterated that the organizations must not take out excessive numbers of personnel at the basic level, and all those that do so must replenish the companies and the basic level. They made it clear that the problem left over after the abolishing of nonestablishment units are to be handed over to the relevant functional department, which is responsible for dealing with them. For the first group of overestablishment cadres in the streamlining, appropriate arrangements are being made, either by having them fill vacancies or replenish the basic level.

9727

CSO: 4005/606

ARMORED FORCES ENGINEERING COLLEGE DESCRIBED

Beijing JIEFANGJUN BAO in Chinese 19 Mar 87 p 2

[Article by Zhang Jinyu [1728 6855 3768] and Wang Fuli [3769 2105 3680]: "The Torrent of Steel Rolls On, Tempering Persons of Outstanding Ability; Brief Introduction to the Armored Corps Engineering College"]

[Text] "At the side of Marco Polo Bridge are gathered youths dedicated to national defense--the Armored Corps Engineering College...." One day in early spring, on the lively campus of the Armored Corps Engineering College, we heard this college song sung loud and clear by the first group of joint training students of the Armored Corps. After 4 years of education in this institution of higher learning, students become "composite-type" military officers who have engineering skills and also understand command and management.

The Armored Corps Engineering Department of Harbin Military Engineering College was the predecessor of this college, which now has advanced teaching and laboratory equipment and a strong teaching force. It has four departments: Engineering, Command, Outside Training, and Foundation. It has a large body of hard-working, cultivated new and veteran professors, lecturers, and instructors. Some professors have a considerable international reputation, and have gone abroad to lecture many times. In recent years the college has begun to enroll graduate students studying for master's degrees. While fulfilling its teaching mission, the college year after year comes up with a string of scientific research results. In the 1986 alone, 15 scientific research results won major awards from the state and the armed forces. Among them the "nonmetallic brush-plating technology" and the "trace electroplating technology" attained the world's advanced standards. In the "tank advanced driving simulator" are concentrated sound, light, machinery, electrical, and hydraulic technologies. Its manufacturing cost is low, and its simulation effect is strong; and it is still one of a kind in China. A student speaking with a Henan accent said to this writer: "I feel honored that I was admitted to this key college in China, and became one of the first generation of qualified students."

Joint training in technologies, command, and management was an important part of the educational reform in the Armored Corps Engineering College. To improve its teaching quality the college has vigorously searched for ways in

reform to enhance the overlapping and permeation nature of its subjects, changing from giving priority to the transmission of knowledge to giving priority to developing intellect and training capabilities. At the same time, the college has strengthened the links in the practice of teaching. On the vast training site, tanks and armored vehicles were drawn up in rows, their mighty gun barrels pointing straight at the blue sky. Every year at the beginning of winter, the officers and men of the college's coaching regiment and the college's graduating students get together and drive battle vehicles to the foot of Yanshan Mountain, where they carry out comprehensive, intensified training under conditions of complex terrain. This rolling torrent of steel is tempering a generation of armored corp crack heroes.

Seeing this magnificent sight, we seemed to hear the mighty and majestic college song: "Studying hard, making every effort to advance, casting with life and blood the steel wall of a new generation, and advancing toward modernization--the Armored Corps Engineering College."

9727

CSO: 4005/604

REPORT ON NAVAL ELECTRONIC ENGINEERING COLLEGE

Beijing JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS] in Chinese No 4, 8 Apr 87  
p 2

[Article by Li Xiangmin [2621 4161 3046]: "Cradle of Electronic Technical Talents in the People's Navy; the Naval Electronic Engineering College"]

[Text] Located in the urban district of Taiyuan City in Shanxi Province, the Naval Electronic Engineering College is the People's Navy base that primarily trains electronic engineering technical cadres and communications and command cadres, and it is a school of higher learning that has the capability to train graduate students with bachelor's degrees and that has a fairly large range of disciplines. A large group of its students have become S&T backbone elements in relevant units, and some students have taken leadership posts at the naval base and naval division levels. "There is no easy path to meritorious achievements, and a profession demands hard work." The goal of this college is to do first-rate work by building the college into a first-class electronics engineering school that sends high-quality talented persons to the units.

In the college, amid the dense shade of trees, the sound of teachers and students reading aloud, and the strong, lively after-class activities filled with rhythm, reveal the college's vitality. On an open, flat, ring-shaped asphalt road, one can see through the variegated weeping willows, standing side by side, the college's principal buildings--classroom building, basic experiment building, library, audio-visual aid education building, lecture theater, and auditorium--and the student dormitories and dining halls. There is a broad playing field, and green trees dot the campus. On the rooftop of the classroom building there are many antennas of various types. All of these things merge into a glorious sight, composing a picture of a cradle for training talented persons in electronics engineering skills and command, a cradle that is making advances.

The college's main classroom building is a 13,000 sq m 5-storied building with many classrooms, laboratories, examination rooms, and computer centers. It has over 1,000 instruments and pieces of equipment for use in teaching and scientific research. The college's advanced observation and communications equipment is concentrated here. The audio-visual aid education building has a close relationship with the students. Here there are a color closed-circuit audio-visual aid education system; a videotape studio; and advanced, modernized language practice rooms, which provide ideal places for learning

foreign languages. The library and the basic experiment building, located respectively on the east and west sides of the auditorium, are places that instructors and students frequently pop in and out of. The library has established information and data connections with several hundred units throughout China, and it has several hundred thousand books. It also has an S&T information reference room, an aural comprehension room, and instructors' reading room, a students' reading room, and so forth. The basic experiment building is also of quite high standard.

The college has a fairly young, fairly high-standard contingent of instructors, mainly composed of professors, associate professors, and lecturers. They uphold the principle of the mutual promotion of teaching and research. Besides fulfilling the tasks of teaching the various types of classes in the college, they are engaged in many scientific research projects in which great results have been obtained. In 1986, all-PLA awards were given for four of their scientific research results. They have written and translated more than 100 kinds of materials and works. Some of their works have been displayed at international book fairs, and some of their teaching materials have been made universal teaching materials for all graduate students in China. Academic research permeates all fields of teaching, vigorously promoting the raising of the teaching standard.

There have been good results and broad prospects in teaching reform. In accordance with the need for building a modernized Navy, the college has drastically reformed the teaching system and content that it has followed for several decades, and has redesigned the knowledge structure of its students, offering elective courses and putting the ability to analyze and solve problems in first place, so that there is a coordinated development of the students' intellect, broadening their knowledge and training their capabilities. In recent years, many graduating students and students of the college have passed entrance examinations each year and studied as graduate students at more than 20 famous colleges and schools in China in the same specialities.

There are about 1,700 students in the college. They have an enriched study content and a full cultural and recreational life. There are specialities in radio communications engineering, radar and electronic countermeasures engineering, command automation engineering, wired communications engineering, marine acoustics engineering, navigation engineering, as well as various types of command classes. The students come from among the senior middle school graduates in all provinces and municipalities in China, or from among the outstanding fighters and cadres in the naval units. The graduate students are admitted to the college by national examinations. Here, the students, through strict study and tempering, are transformed from young students and outstanding fighters into naval officers of good quality.

The advancing Naval Electronic Engineering College is a new type of college imbued with vitality. It is advancing along the path of national defense modernization to scale the peaks of the future!

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CSO: 4005/756

STRICTER SELECTION PRODUCING BETTER TALENT AT COLLEGES

Beijing JIEFANGJUN BAO in Chinese 20 Jan 87 p 1

[Unattributed Article: "Putting Into Practice the Screening System Is Advantageous for Cultivating Outstanding Talented Persons"; based on data gathered by Zhao Zhifeng [6392 1807 1496], Li Junmin [2621 9183 3046], Deng Yifei [6772 0001 7236], Wan Fengqi [5502 7685 3825], Wu Zhenglin [0702 2973 2651], Fei Yansheng [6316 1750 0524], and Pan Shichang [3382 0013 1603]]

[Text] It has been more than 4 months since the new students of 1986 entered military schools, so what is the situation with respect to carrying out the screening system in colleges and schools? This newspaper assigned some writers at the end of December last year to investigate the situation at the seven Army colleges of Xian, Dalian, Nanchang, Guilin, Kunming, Shijiazhuang, and Xinyang. Their general conclusion was: To improve the quality of students trained in military schools, it is necessary to put the screening system into practice, but there is now still resistance to it, and the system and its laws and regulations need to be further perfected.

The investigation data showed that the initial practice of the screening system has already brought gratifying changes in the teaching of schools and colleges. At a certain college, a director of a teaching and research section said that in the past, when an instructor taught class, the greater part of his energy was spent on seeing that the poorer students kept up with the rest of the class, putting stress on the lower not the higher, a situation that adversely affected the development in depth of the great majority of students. After the screening system was put into practice, the instructor's energy could be directed to the great majority of students, a situation that is advantageous for cultivating a large groups of outstanding talents. That idea of students in the past of "comfortably attending military schools and smoothly getting a diploma" has been smashed, a situation that has greatly aroused the enthusiasm for studying and the spirit of working hard to improve. The students' ideology and moral character, and their ability in self-control, have been strengthened. From a look at the situation in these colleges, we see that the greater part of the students approve of and support the screening system.

It is imperative to put the screening system into practice, but there still is resistance and difficulties. From a look at at the investigation data, we see

that the number of students who have to leave college are less than half the number of students who should be eliminated by selection. The resistance to and difficulties in putting the screening system into practice are mainly manifested in: First, the elimination criteria are not grasped well. Physically unqualified persons or students who are unwilling to learn are handled fairly well, but no hard and fast rules have been made for the minority of cases that belong to indices of politics and ideology, moral character, organizational discipline, and intelligence. Second, there is a certain degree of difficulty in the work of making students leave college. Third, the understanding of the screening system on the part of the units that send the students and the enrollment work personnel in local colleges and universities awaits improvement.

During the course of the investigation by several writers, the comrades of the colleges made many suggestions. As an example, they said that among the students who were expelled from college, the proportion of those who were physically unqualified was high, but when entering college they filled in their physical examination forms as "qualified." Next, it is hoped that the relevant units, with an attitude of responsibility toward the armed forces modernization, will do good rehabilitation work on the eliminated students. For example, some students enrolled from the localities are not qualified for any colleges, but are qualified for technical colleges and schools. Therefore, command colleges and schools and technical colleges and schools should conduct the necessary lateral exchange. The comrades of the colleges also suggested that scientific and national criteria for elimination through selection be formulated as soon as possible, and that the relevant systems, rules and regulations be established, so that student screening work will become a "law" to rely on.

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CSO: 4005/606



BRIEFS

NEED FOR AIRBORNE COMMAND POST RAISED--When the helicopter appeared, not only did it affect the modes of ground warfare, but at the same time it impelled a change in the modes of command--opening up a way for airborne command of ground warfare. During the Israel-Lebanon War, the Israeli armed forces used E-2C early warning aircraft to command 96 fighter-bombers, which destroyed two groups of air defense missiles deployed by Syria in the al-Biqa' Valley, and also shot down 81 aircraft of the other side's without a single casualty to themselves. After the war, many military commentators cried out in alarm: the capability to cause fear in people had its origin in one early warning and command aircraft, which with a certain fire control system made up an organic system. The practice of many local wars proves that having a large helicopter carrying advanced signal communications instruments set up as an airborne command post, and combining with some armed helicopters acting as escort aircraft to form a command network, which commands the battle action of tanks, infantry battle vehicles, artillery, as well as all service arms on the ground, not only greatly improves command efficiency, but at the same time this mobile airborne command post is much safer than a command post on the ground. Following the raising of the degree of our group armies' modernization, without the slightest doubt the establishment of an airborne command post will be imperative. [By Leng Dewen [0397 1795 2429]] [Text] [Beijing JIEFANGJUN BAO in Chinese 13 Mar 87 p 3] 9727

PLA FILE MANAGEMENT SYSTEM CERTIFIED--Beijing, 18 March--A file materials management automated system for the PLA's archives was certified today. Experts taking part in the certification meeting concluded that this technology is in a leading position in China. In the past, file management personnel had to rely on their memory and look up catalogues to search for file materials, and it was as difficult as fishing for a needle in the ocean. Now, with the use of this management automated system technology, work efficiency is raised by 200 to 497 times. Relevant experts and specialists say that the file management automated system is the first such system in China that handles military documents in Chinese characters. Complemented with microfilms and facsimiles, its functions are comparatively complete. This system provides a system model and beneficial experiences for the file automation of China and the PLA. [By Sun Xiangyu [1327 4382 3768]] [Text] [Beijing JIEFANGJUN BAO in Chinese 19 Mar 87 p 1] 9727

CSO: 4005/604

## JIANGXI FORUM ON RURAL PARTY RECTIFICATION

Nanchang JIANGXI RIBAO in Chinese 26 Feb 87 p 1

[Unattributed article: "Conscientiously Study and Implement the Central Government's Documents and Make a Complete Success of Party Rectification Work; the Jiangxi Provincial CPC Committee's Party Rectification Office Held the Forum of Directors of Prefectural and City Party Rectification Offices; Xu Qin [6079 0530] Attended and Spoke at the Forum"]

[Excerpts] The Office of the Guiding Group for Party Rectification under the Shanxi Provincial CPC Committee held a forum in Nanchang from 22 to 23 February for the directors of party rectification offices of prefectural and city CPC committees. Xu Qin, deputy secretary of the provincial CPC committee, spoke and sat through the entire forum.

Comrade Xu Qin said that village-level party rectification has been basically completed in Shanxi Province. What we mainly need now is to do a good job in winding up. First, we should help a few village party branches that have not completed party rectification double their efforts to complete party rectification and make up what has been missed if necessary. The four requirements set forth by the Central Commission for Guiding Party Rectification in a circular it issued for rural party rectification work and the prominent issues repeatedly stressed by the provincial CPC committee--namely, doing a good job in ideological education, solving the "two serious" problems, and developing leading bodies--should be used as criteria for the inspection and acceptance of party rectification work. All village party branches must conscientiously educate members to adhere to the four cardinal principles whether or not they have completed party rectification. Second, we should step up efforts to finish squaring accounts and honoring economic contracts. In light of reality and according to different circumstances, all villages that have not finished squaring accounts should organize some people to solve problems in this regard within a given period. Third, we should do a conscientious job in consolidating and developing the results of village-level party rectification work. We should establish and perfect leadership, inner-party life, and party members' study and education systems and formulate some concrete measures in accordance with the question of how to develop party members' role as a vanguard and model to make village party branches learn to handle party, economic, and other work and build themselves into a strong leadership core. This is an important aspect of consolidating and developing the results of village-level party rectification.

While addressing the issue of solving the unsolved problems of party rectification, Comrade Xu Qin stressed that there are roughly five tasks that need to be done within a given period. First, all units that have not carried out or completed party rectification must double their efforts to fulfill party rectification tasks, and all localities must organize people to give these units selective assistance in important areas. Whoever has missed the lesson of adhering to the four cardinal principles must make it up in party rectification. Second, all unsolved problems concerning disciplinary actions and registration of party members should be sorted through, straightened out, and solved completely, hopefully before party rectification is over. Third, as for a few party members that have failed to participate in party rectification, all localities should put them through a concentrated course to make up what they have missed in party rectification and take appropriate disciplinary actions at the end of party rectification against those who fail to show up without reason. Fourth, attention should be paid to the verification and cleanup work of party rectification in villages. The verification work above the county level is required to be done in March, and we should try to finish the verification work at the township level and the cleanup work at the village level by the end of March. Fifth, we should hasten the process of various violation cases to increase the closing rate of such cases.

12302

CSO: 4005/571

## HARBIN OFFICIALS DISCIPLINED FOR MILL EXPLOSION

OW281522 Beijing XINHUA in English 1455 GMT 28 Jun 87

[Text] Beijing, June 28 (XINHUA)--The leadership in Harbin, Heilongjiang Province, has decided to mete out disciplinary actions against officials held responsible for the serious explosion in Harbin linen textile mill last March.

The decision of the Harbin City Communist Party Committee and Harbin City Government held officials at the mill and leaders of higher managerial offices directly responsible for the explosion, which killed 58 people, injured 167 others and caused a loss of 8.82 million yuan (about 2.4 million U.S. dollars). Now, 98 injured workers have left hospitals after recovery and 79 others are still in hospital receiving treatment.

According to the decision, Liu Shulun was dismissed as the mill's director and member of the mill's party committee; Wang Huashan was removed from the post of deputy director and member of the mill's party committee; Lin Yuli, secretary of the mill party committee, was given a disciplinary warning within the party; and Song Yichun, chief of the mill's mechanic and electrical section, and Jiang Yanzhi, deputy chief of the section, were stripped of their posts and had a serious demerit to their records.

Shen Kejian, director of the Harbin City Textile Industry Management Bureau, Zhou Nanlin, deputy director of the bureau in charge of safety in production, and Hong Qipeng, vice-mayor of Harbin in charge of safety in production, received the punishment of a demerit to their records.

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